

Challenge

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letters TO THE EDITOR

Challenge invites your comments. Address letters to Challenge, 475 Fifth Avenue, New York 17, N. Y.

Megalopolis revisited

• Though I did find the interview with Dr. Jean Gottmann [CHALLENGE, August-September, 1957] very interesting and thought-provoking, I must "challenge" one statement: He has "coined a new word, megalopolis."

I doubt very much if he coined it, and if he did, it is not new. It is a vivid word, so vivid that I recall very clearly when I first encountered it, approximately 22 years ago in *Fortune* magazine. Perhaps it was not new then, but I am sure that *Fortune's* researchers can check back on their sources, and advise if they coined or borrowed the word.

Yours is a different magazine, most enlightening and educational, and I enjoy the opportunity to take issue with you.

WILLIAM J. MILEHAM
Alexandria, Va.

Dr. Gottmann does not claim credit for coining the word, "megalopolis." To quote his answer to our very first question:

"According to Webster's Dictionary, a megalopolis is a very large city. Actually the word goes back to the Greek philosophers of antiquity who used it to denote the

great world of ideas as opposed to practical politics."

Our apologies to Dr. Gottmann and our readers for the wording of our opening question, which implies that Dr. Gottmann is the originator of "megalopolis."—Ed.

Gold standard and inflation

• I think CHALLENGE is the best *Magazine of Economic Affairs* in the U.S.A.

Therefore, I read with interest your column [Challenge Notes, June-July, 1957] on inflation.

Slichter, Galbraith, Clark all have their Keynesian theories about inflation, but they are all wrong! The best ideas are those of the Economists' National Committee on Monetary Policy.

This organization has 72 members, five of whom are associated with your own New York University—which I feel, is the most conservative in the country on economics.

In 1933, Franklin D. Roosevelt treasonably took the U.S.A. off the gold standard. Then, in 1934, he reduced the gold content of our dollar by about 40 per cent. These two acts I feel, are the real causes of inflation.

Please think over the gold stand-

ard, and, when you can, give us an article so that we conservatives can really bring the dear old U.S.A. back to its senses.

FRANK P. STELLING
Oakland, Calif.

•Reference is made to [Challenge Notes] August-September, 1957 issue, pages 6-7.

Would it not stabilize our economy if we were on the gold standard? At least partially stabilize prices? I remember we had some inflation during World War I.

Your opinion would be greatly appreciated.

ROBERT H. WILLIAMSON
New Philadelphia, Ohio

A return to the gold standard would—if it were politically feasible, which is doubtful—check the danger of inflation most effectively. However, most economists believe that under present conditions, it would tend to replace secular inflation with the even more serious problem of secular deflation, and all that this entails in terms of economic stagnation and unemployment. There is reason to believe, moreover, that some types of currency and credit management are potentially superior to the gold standard in that they can avoid both secular inflation and secular deflation.—M.K.

•Since I have been a subscriber to CHALLENGE for some years, and find it very interesting and instructive, I am writing you hoping that some one will inform me concerning a subject that has been on my mind for a long time.

Now that inflation is a very much discussed subject, I should like to know why deflation, to a greater or less degree, couldn't be brought

about by decreasing the value of our gold or rather by increasing the amount of gold which backs our dollar.

During the F. D. Roosevelt Administration we went off the gold standard, and purchased gold at a greatly increased price. This debased the value of the dollar, thus caused inflation and, in turn, started a buying spree. Why wouldn't the reverse of this operation cause some deflation?

Further, as I understand it, we have never properly gone back on the gold standard.

It was my impression that, during the Roosevelt Administration, "managed money" was to be the means by which the government would control inflation or deflation. I have not heard much about that recently.

Can some one please set me right on this subject of a "managed economy?"

CARL DE FREEZE
Norfolk, Va.

Your suggestion might work if we and our trading partners were on a fully convertible gold standard. In that case, a "revaluation" of the gold content of our dollar might prove deflationary—perhaps disastrously so. But since we are not on a fully convertible gold standard, we shall have to look to other ways to maintain the dollar's value.—Ed.

Ringing the bell

•Your magazine, I think, is particularly suited to the needs of the average businessman, as well as to those engaged in the various fields of economics. Further, it has a ring of true objectiveness, authority and sound principle.

ERNEST A. WOODWARD
Eskridge, Kans.

a personal note

from the editor

*Sputnik's real threat:
selling ourselves short*

OUR REACTION to the Russian satellite, *sputnik*, was interesting on several counts—the least of which was that the Russians beat us on this one. I think the thing that bothered us most was the sudden realization, still subconscious with many of us, that the rest of the world is becoming less and less impressed with the importance of our traditional claims to superiority in material things.

As a people, we have become rather comfortably accustomed to telling ourselves that life is worth living in these United States of America because we have more automobiles, more bathtubs, and more of practically everything else that one can think of than any other nation on earth. And we have not hesitated to say this before people who have considerably less, much to their resentment. It must be said, however, that more often than not what we have said in pride was in defense of “our way of life.” Unfortunately, we have managed to convince many people outside the U.S.A. that we are more impressed with our material achievements and possessions than with our ideals. There were, in fact, five million more eligible voters last year who drove motor vehicles than voted in the nationwide election.

What does this have to do with *sputnik*? The satellite itself is unimportant, for it is neither the last word in satellites nor does it pose an immediate threat to the safety of the U.S.A. But it is an achievement that stirs the imagination; it borders on science fiction; and it represents something which many Americans had come to assume would be achieved for the most part by American know-how, aided and abetted by the myriad electronic gadgets and computers that we have heard so much about. Imagine the impact when it turned out that someone else could do it; and not only do it, but do it first. And by a nation whose technology has been deprecated in the popular press! The shock was too much, even for some people in fairly high positions. One called *sputnik* a “pile of junk.” Another held his head and cried: “We kidnapped the wrong German scientists.” This is not good. It is unworthy of our greatness.

It is to our credit that sanity returned very quickly. We can be certain that if we put our minds to it, within a few years we shall launch satellites which no one can match. This, however, will not resolve the deep-rooted reasons for the first hours of surprise and shock that followed *sputnik's* launching. To many Americans this Russian feat endangered our way of life because it threatened to match our material superiority. Actually, what should bother us most is the clear evidence of a serious reversal in our minds between ideals and material benefits. The wealth which we enjoy came out of our ideals. It was not the other way around. Therefore, as other peoples seek to match our material position, we should not assume that all that America stands for is being lost. We have more to offer to others and to history than superior technology.

We might as well get used to the idea that the world is rapidly changing and that many other peoples will come into possession of things which at one time only Americans hoped to have. Undoubtedly, these are the material advantages that Egyptians want, and Chinese, Burmese, Indians, Algerians, and so forth. All over the world people want a better life, and I think that most Americans would agree that this is all to the good. Some peoples are already beginning to be materially better off. In some instances, they may be going about it in the wrong way, but we shall never convince them of that unless we begin to act as though we are firmly convinced of our own way of doing things.

The greatest danger to us today is still from ourselves. We do not yet know how we should represent ourselves to others. The one big point that we had made in our favor, that of technological and productive superiority, is not very convincing now. It is vulnerable to the periodic and dramatic achievements of others. Moreover, it is evident that even people who choose to use "non-American" methods can produce satellites and rockets, guns and tanks, and automobiles. But this is not the end of the American position. A good part of the world continues to believe with us (or would like to believe) that freedom is dear to the individual, and that he who works in freedom works best in the long run.

This is the greatest message that we have to give to other peoples. We are strong *because* we are free. This is the image of America that the world most needs to see, including those who say they will "catch up." I would rather fight to remain free than to defend the virtues of my triangular bathtub.—H.B.



Challenge Notes

The cost of economy; hitting below the conscious; sign of prosperity?

LAST SPRING, Congress embarked on what looked like its biggest budget-paring session in years. In response to a sudden wave of public economy-mindedness, key defense and foreign aid appropriations were cut, in many cases more sharply than military experts thought was desirable.

But has government spending in fact been reduced? A recent report by the U.S. Bureau of the Budget shows that it has not. Indeed, estimates of federal spending for the fiscal year ending June 30, 1958, show that the government will spend 189 million dollars more than President Eisenhower estimated in his January budget message to Congress. Not only is outgo rising—from 71,807,000 dollars to 71,996,000 dollars—but estimates of government income have had to be revised downward slightly. While the government is still counting on a net surplus, it will be some 284 million dollars smaller than President Eisenhower estimated in his budget message last January.

Does this mean that all the budget cutting efforts of Congress were just so much waste motion? We do not think so. In the first place, much of the increased spending is a direct consequence of inflation. The government's "cost of living" has risen like ours. It, too, has found borrowing increasingly expensive in recent months—but, unlike individuals and private businesses, it is legally obligated to borrow in order to service the national debt. Thus, if Congress had not cut appropriations, spending would probably have been even greater.

Besides, was it reasonable to expect substantial reductions in government spending without, at the same time, sacrificing important government services? Economy in government is a fine thing, but it must be measured against our desire for such government services as defense, education, reclamation, etc. To suppose that it is possible to inaugurate sweeping economies which retain the same level of service as heretofore, is

an illusion. In economics, as in other fields of life, there must always be some sort of relationship between what goes in and what comes out.

Hitting below the conscious

WHILE the world has been fearfully discussing *sputnik*, Madison Avenue has been buzzing with news of another kind of scientific breakthrough: invisible advertising. Strange as it may sound, this is not an improvement over the visible variety.

Invisible, or *subliminal* advertising, as it is called by its creators, seeks to persuade on the sub-conscious level. By flashing an advertising message like "Eat Popcorn" on a television screen at 1/3000th of a second speed, the new method hopes to influence viewers who never consciously see the message. The audience, while consciously watching a film, is sub-consciously being prodded into buying popcorn.

Mr. Francis Thayer, president of Subliminal Corporation, which patented the technique, has already sold some "subliminal" messages to a movie chain which wants to stimulate refreshment sales. Other advertisers have also shown "terrific interest."

And small wonder, for if the technique really does what we are told it does (and this has not yet been established), then it may very

well become a "social H-bomb." In any case, it raises some very real questions as to how far an advertiser may go in his efforts to sell a product. We do not permit fraud in advertising. Should we then permit psychological deception? What about the "inalienable" right of the viewer to "turn it off" when the commercial is on? How can he turn it off, if he does not even see it?

Indeed, the problem goes beyond advertising, for the same techniques could be employed in politics or even in the cold war.

Surely, it is not too fanciful to conceive of a situation where a Republican address would be interrupted by invisible Democratic messages (and vice versa). And think of what that would do to political oratory!

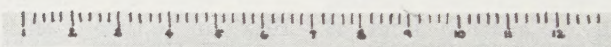
Symbol or cause?

TO MANY of our overseas friends, the automobile has become a kind of symbol of American prosperity. What they probably do not realize is that the symbol may also be a cause. At many industrial plants, parking space is becoming so congested, that (according to a recent survey by McGraw Hill Publishing Company) industry simply has to invest in capital plant expansion in order to keep up with the growing size and number of their employees' cars.—M.K.

A standard of living is more than an economic statistic

Measuring

ECONOMIC WELFARE



by Bert F. Hoselitz

ONE OF THE most frequently used—and most elusive—of economic concepts is that perennial favorite of economists, propagandists and armchair diplomats, the standard of living. Phrases like “the United States enjoys the highest living standard of any country in the world,” “we enjoy a higher standard of living than our forefathers,” “the man next door has a higher standard of living than I do because he has *two* cars in his garage” have become the staples of everyday conversation. And yet, a little reflection will show that each of these phrases defines standard of living in a quite different way.

Some people identify standard of living with income or wealth; some think of it in terms of consumption—that is, the quantity and variety of goods and services consumed. Still others, more sophisticated, make a distinction be-

tween consumption and living. A standard of living, they point out, means more than a standard of consumption for it includes such things as personal freedom, security, working conditions, and so forth.

There is another difficulty. When we talk of our standard of living, we are talking about a norm or average; we do not consider those days when we are better or worse off than this average. Nor, when speaking of our country's standard of living, do we consider those who are better or worse off than the norm. And yet such deviations from the norm may themselves be normal. In that case, our standard of living and our level of living would be two entirely different things.

This great variety of definitions can lead to a good deal of confusion. For example: most of us tend to identify the standard of living

of a population with its per capita income or wealth. Thus, the United States has for the past several decades enjoyed a higher per capita income than any other nation. Can we conclude from this *alone* that our citizens enjoy the highest standard of living in the world?

Of course, we cannot. There is no inevitable connection between the per capita income of a nation and the standard of living of its citizens. In 1939, Germany had the highest per capita income of any country in Europe and yet the standard of living of the average German was below that of the average Englishman, Frenchman or Belgian. The explanation of this apparent contradiction is quite simple. Per capita income, after all, is an abstract statistic obtained by dividing a country's national income by the number of its inhabitants. It does not tell us what income is actually available for consumption by flesh and blood citizens.

Thus, it is quite possible, as was the case in pre-1939 Germany, that such a large amount of a nation's income goes into armaments, that average consumption remains at a very low level even though the national income is rising. This is precisely what is hap-

pening today in the Soviet Union where a greatly expanded national income could be used to provide the masses of the population with a very much higher standard of living than they actually enjoy—if some of the income currently used for capital goods industries and armaments were shifted to the production of consumer goods. How long it will be possible for the Soviet government to maintain this artificial gap between per capita income and living standards remains to be seen.

There is still another case in which this "contradiction" between national income and the standard of living of the masses of the population may arise. This is the case of a rigid class society in which wealth accumulates in the hands of a privileged few who either hoard it or spend it on imported luxuries (thereby contributing nothing to the domestic flow of incomes.) The low level of living of the masses in such countries—of which some Middle Eastern states are good examples—is due not to the poverty of the nation as such, for the national income of many of these countries is quite high. Rather, it is due to the absence of a social structure which assures investment in the kind of production which will generate incomes as widely as possible.

So far, we have merely tried to

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show that the standard of living of a country's citizens is affected not only by its national income or wealth but also by the internal structure of its economy. A more difficult problem arises if we define standard of living in terms of consumption levels. This is precisely what propagandists do when they compare the availability of refrigerators, automobiles and bathtubs in the belief that they are, in fact, comparing standards of living.

Consumption patterns differ

Actually, this business of comparing the standards of living of different countries or of different eras is a good deal more complicated than most of us believe. Indeed, it is not strictly an economic question. For, in addition to some of the problems we have already mentioned, we must also consider the fact that people of different countries have different habits, needs and attitudes. Their consumption patterns will, therefore, be different. It does no good to compare the availability of automobiles, refrigerators and bathtubs in Patagonia and the United States unless we know that these things are valued equally in both lands.

The problem of comparing living standards can, perhaps, best be illustrated by asking ourselves (as most of us do) whether we

Americans enjoy a higher standard of living today than our ancestors did some hundred years ago. The answer is unquestionably, "Yes." But it is a qualified "Yes." Thus, nobody can deny that today we "consume" many articles—such as automobiles, television sets, nylons, plastics, synthetic foods, etc.—completely unknown to our grandfathers.

But, is the availability of these goods an adequate justification for describing our standard of living as better? The answer is by no means as clear-cut as we might suppose. For example: If our ancestors did not enjoy the undoubted pleasures of automobile ownership, can we believe that they would have valued the possession of an automobile as highly as we do today? Did they need it as badly? After all, as long as Americans lived and worked in the same place, an automobile could not make the same contribution to living standards that it does today. The same point could be made with other goods and services which we today consider necessities. For in all such comparisons of living standards, we tend to assume that those goods, services and other conditions of life, which we presently enjoy, should be used as a standard of comparison. But, by so doing, we automatically bias the result in favor of present-day American consump-

tion and living patterns. If, instead, we were to use the prevailing social values of the 1850s, we might find that we are at best enjoying only a moderately higher standard of living.

But, if comparisons between present and past standards of living are difficult for the same society, how much more difficult is it to compare the living standards of two societies with very different cultures. In spite of important differences, we are still much closer to our Civil War ancestors than to the contemporary Chinese or Indian in our basic values, religion and political structure. In the case of the Asian, half a globe and centuries of different historical growth separate our styles of living, and these cultural differences make comparisons of standards of living especially tricky.

“Atmosphere” of life

Expressed in dollars, the average income of Americans is between 20 and 30 times that of the average Indian or Chinese. What does this tell us about comparative living standards in American and Asian societies? In spite of the vast difference in income, we can conclude that Americans enjoy higher living standards than Chinese or Indians if, *and only if*, we can show not only that the Asian consumes less than the American, but also that he would

wish to have a consumption pattern more or less similar to that which the American actually enjoys. Now, while Asians eat different foods, live in different houses and wear different clothes, it is true that the general acceptance of western economic and technological practices has brought about an increasing similarity in the style of *desired* consumption. Americans do enjoy many of the goods and services which the Asian would also like to enjoy, but cannot afford.

As we have already pointed out, however, a standard of living refers not only to consumption, but also to those freedoms and general conditions of life—health, education, recreational facilities, the possibility for bettering one's lot—which make up what Professor J. S. Davis of Stanford University has called the “atmosphere” of life. And, while the attitudes of different cultures towards consumption is becoming increasingly the same, this is not true of these other more tenuous aspects of life.

Take, for example, attitudes towards leisure. The rigorous Puritan (still to be found in the West) tends to consider leisure as sinful and will abhor it; the easy-going Malayan, on the other hand, will see in leisure one of the priceless advantages of the “good life.” Clearly, these conflicting attitudes

towards leisure must be taken into consideration when attempting to determine comparative living standards in the two societies. For if the Malayan chooses to sacrifice output to leisure, this choice probably will not increase his standard of living, but it may very well increase his welfare and happiness.

For welfare is measured not solely by average income or average consumption, but also by the conditions under which income is earned and spent. Now, it is true that a nation with high income levels can provide its citizens with many of the things which contribute to their welfare. As a rule (although this is by no means always the case), the nations with the highest income also enjoy better health, more educational facilities, more opportunities for leisure and recreation, and more choices in occupations, consumption and patterns of living.

Thus, it is true that in terms of all measurable indicators the citizens of wealthier countries enjoy a higher level of welfare than those of the poorer countries. On the other hand, differences in welfare are by no means as wide as differences in average income or

consumption patterns. The fact that American food intake (in terms of calories) is about one-third higher than that of Indians and that there are more automobiles, television sets, hospital beds, universities, etc., per inhabitant in the U.S. than in India, does not mean that the average welfare of the American stands in any fixed relationship to that of the Indian. Welfare cannot be measured with any degree of precision.

On the other hand, the "good things" of life which money *can* buy are universally desired and the citizens of wealthier countries are universally envied for being in a position to enjoy them. Whether we enjoy our position or not, the American level of living has become a sort of universal goal which other people hope to reach eventually. Of course, this does not mean that they wish to imitate our consumption patterns in every detail; nor that they wish to adopt all our values. In fact, they are much more eager to attain our physical comforts than our beliefs. They are just beginning to find out how difficult it is to attain the one without the other. ■

And That's One Solution!

"...THE REASON for the termination of neuroses may not always be recovery. They may end by being transformed into another illness, or, the patient may die. . . ."—*Science News Letter*

Today's speculators learn to play successfully according to new rules

Making a Million on Wall Street

by Ben Weberman



NOT A wrinkle of change marks the face of things at 11 Wall Street. Just as in 1929, the floor traders of the New York Stock Exchange scurry frenetically to place, buy and sell orders for stock shares.

Behind the constancy of this stylized hysteria, however, a number of changes have succeeded each other. The free-swinging speculators are gone. Conditions no longer permit them overnight to transform small sums to small fortunes and small fortunes to big ones—only to be wiped out by a bad guess or turn of the market.

Today's speculators are more subdued. They must conform to rules that the country has evolved since 1933 to protect the individual as well as the economy. But there are no guarantees. The market place is still the place where uncertainty has a valuable function

and the people of the market still deal in variously priced doubts.

If they have changed character, the speculators are still important on Wall Street. They play a key role in providing the high-risk capital for certain areas of economic development. They have learned how to operate successfully in a situation that makes fast stock trades of the old type barely profitable because of high personal income tax rates. They can still make fortunes, but they must be slower and subtler.

Speculation has been on the rise in the past few years. The chill fears stirred up by the depression have faded under prosperity. Speculators, moreover, have found ways—with the help of special legislation—to soften some of the rigors of the new rules and taxes. The tax drain can be reduced by making profits subject to the capi-

tal gains tax of a maximum 25 per cent. Ordinary tax rates go over 85 per cent.

The search for oil allows conversion of ordinary income to capital gains. Similar situations have directed investments into timber, farming and cattle-raising. Profits—and hard luck—can be measured in the millions of dollars.

Sound and fury

Much of the sound and fury of the market place signifies not a great deal in terms of magnitude of risk capital. There is the small fellow who takes a sum important to him, perhaps 1,000 dollars, to buy stock which someone told him would do well. Another familiar sight is the retired businessman with a nest egg of 30,000 to 100,000 dollars. His capital is too small to provide more than a very modest annual income. He tries to improve matters by spending five days each week from 10 a.m. to 3:30 p.m. in the hope of "catching a turn" during the trading day. His hope is a 50- or 100-dollar profit from a few quick trades.

Rigorously speaking, investment implies the purchase of something that will be held over a considerable length of time. The term implies a reasonable safety of principal. This is in contrast to speculation, which is a frank effort to pile up profits from buying and selling, with the risks commensu-

rate with possible gains. Most investors have a touch of the speculator about them and would not object to unreasonable profits. But the real speculator is willing to take a wider chance. Most of the money going to market is staid investment funds, but the speculators are largely responsible for the dramatic elements of Wall Street. The speculators also point the way for future investments.

Overshadowing the little fellows, who talk louder than their money, are the representatives of bigger interests like J. H. Whitney & Co., and personal holding companies of the Rockefellers and Astors. These are sophisticated speculators with large staffs directing multi-million-dollar portfolios. Other powerful traders are firms like Fox-Wells & Co. and Graham-Newman & Co., which act as investment guides for pooled funds of moderately wealthy persons.

There are also trusts of various kinds. Some buy conservative bonds, while others, like the Atlas Corp., seek "special situations" of greater risks and rewards.

In the past two years, many special trusts have been formed to concentrate on Canadian investments. They promise their stockholders no dividends at all,

Ben Webberman is corporations editor of the *Journal of Commerce*.

insisting that any gain will come from appreciation of the market price of the shares. These groups thus range the spectrum from conservative investors to frank speculators. The distinction between investor and speculator is particularly hard to make in the case of large funds, where speculative returns can frequently be obtained through sound investment policies.

Atlas is typical of today's constructive corporate speculator. Under the direction of Floyd Odlum, it has become one of the largest owners of uranium properties. It has realized large capital gains from its holdings in RKO Pictures Corp. and Northeast Airlines.

Reasoned right-being

Errors and chicanery play important roles on Wall Street despite all efforts at reasoned right-living. The best staffed organizations are not immune. One mutual fund bought a big block of the U. S. Hoffman Machinery Co. stock just before the "bottom fell out" of the market price. A group of the most capable Wall Street bankers bought control of a floundering department store chain in the expectation that good management would revive a basically sound firm. The bankers discovered they had a business corpse in their coffers and are now frantically trying to liquidate the

worst part and diversify the rest.

Many floor traders operate aggressively and have a strong influence on the market. They are members of a stock exchange and thus have the right, forbidden to nonmembers, of trading on the market floor. Some have substantial funds of their own, and many augment their forces with money entrusted them by outsiders exploiting the traders' close market knowledge.

Floor traders cry havoc on occasion. They accomplished a classic example of speculative excess during the past year when they repeatedly bought and sold shares of the Lukens Steel Co., aerating the stock from 14 to 122 dollars a share in a few months. The advance was not steady but consisted of sharp daily gains followed by subsequent reactions. It was often possible to make as much as 10 per cent in a single day.

The interest in Lukens was generated by the valid judgment that the price was much too low in terms of anticipated profit. As the price started to move up, the stock attracted a following which began to trade in it for profit. Before long the price was too high in terms of that anticipated profit. The New York Stock Exchange finally ordered its members to abstain from trading in Lukens and saner investment judgment prevailed. Lukens stock soon

dropped to the 100-dollar level.

A new breed of speculators is typified by the empire builders who unite market skill with an appreciation of management techniques. They have been called into life by the capital gains provisions of the tax laws. Their objective is to increase the value of properties they hold, the increase being classified as capital gains and not as income subject to the income tax.

The fabulously successful Norton Simon controls a dozen large corporations, including Hunt Foods and Ohio Match. Sidney Alpert pyramided an investment in Bellanca Aircraft into control of many other firms like Waltham Watch, A. O. Nelson—a hardware firm—and Pierce Governor.

Mr. Simon, known as a constructive speculator, injected progressive management techniques in sales and production. The recreated companies were much stronger and more valuable than they had been alone, and Mr. Simon built small investments into multimillion-dollar holdings.

Mr. Alpert concentrated less on the internal management of the companies he dominated. The price of Bellanca rose from five to 30 dollars a share under his early aegis, but the company's production troubles became known and the shares dropped below two dollars before trading was halted.

The Securities and Exchange Commission, a child of depression disillusionment, sets rules designed to reduce excesses. An important inhibition is the strict margin requirements. The purchaser of stock must put up 70 per cent in cash, while he needed to produce only 10 per cent in 1929. Thus, in the bad old days, a 10 per cent increase in the stock value meant a 100 per cent profit. This was fine, but a slight drop would mean that the margin buyer would have to put up a sizable sum or be wiped out. The 1929 crash was a massacre of the margin buyers.

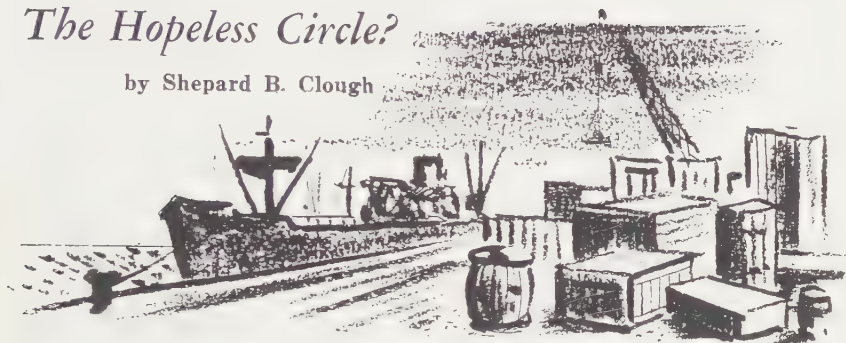
But the stock market trade has as many new tricks as it has new rules. Thus the 70 per cent margin requirement can be partially circumvented. The stock purchaser pays cash and then gets a collateral bank loan on the stock that is larger than the 30 per cent loan permitted him by his broker under margin requirements.

It was inevitable that a prosperous Wall Street would attract a motley band of hopefuls. Dishonest brokers selling questionable stock and a disheveled fringe of other fraudulent operators do attempt to batten on the innocents. These are, however, of minor importance. Investors and speculators both continue to contribute to the growth of the nation by providing it with low, medium and high-risk capital. ■

TRADE AND AID—

The Hopeless Circle?

by Shepard B. Clough



How much choice does the U. S. really have in its world leadership?

IT IS A fairly well-justified vanity for the United States to look upon itself as the inheritor of British world leadership. But the comparison may lead to oversimplification, and we can find ourselves triumphantly producing Victorian solutions to 20th-century problems. The "trade, not aid" slogan is a case in point.

Great Britain was—and still is, for that matter—a world trader. Her commerce with the rest of the world in the 19th century comprised about 25 per cent of the national income. But our economic grandeur does not carry with it the distinction of world trader; foreign commerce is less than 10 per cent of our national income.

Thus the shift in the economic center of gravity has not been accompanied by a similar structural change in trading habits.

Many of our resources are being depleted, and new reserves of oil, iron ore and atomic fuels are being found elsewhere. But if our trade pattern is changing, it has not moved very far yet. We must first adjust ourselves to different economic postulates.

Great Britain was, in the 19th century, endowing certain portions of the globe with a kind of foreign aid. But it went under the name of colonial expansion in those days. England built up backward areas and gave them sanitation, railroads and administrative techniques. Some private investments followed these government expenditures into the imperium. Most British investors, however, preferred to invest and trade in other regions. The guineas went more enthusiastically to the U. S., Canada and South America.

British bankers played an important part in guiding investments. Tremendous bond issues were floated right up to World War I. But the investors themselves got only a fair return. The recipients did splendidly, and the swift railroad development in North and South America, owes much to English bondholders. The bankers got large commissions and doubtless let the magnitude of the commissions guide their advice to the investors.

Banking is another instance of our failure to take over all of the British functions. The British established banks abroad at a time when the native institutions were inadequate. The United States became an investor abroad when banking services were generally available, and Americans were thus not impelled to establish many banks. Moreover, branch banking is frowned upon in the United States, contrary to the English case, and thus we lacked the institutional framework conducive to foreign banking.

While we have the money, the British continue to have the banks. It is not, however, an illogical division of functions. British bankers can be a useful intermediary between the United States and those parts of the world which the English know better by experience and proximity.

Throughout all recorded history

dominant economies have always attempted to extend their resource bases. Nations with high per capita incomes thus have tended to export their ideals of material betterment, methods of production, skills—and capital. Great Britain is surely not the only precedent for our actions, which fit an easily identifiable rule of human behavior. The same phenomenon is true of the histories of ancient Greece and Rome, Spain and the Netherlands in the 16th and 17th centuries, and France as a British competitor in the 18th and 19th centuries.

A viable trade

The foreign extension of the American resource base takes place through investment, trade and aid. The investment as a money-making private venture can be justified only if it is supported by a viable trade. Thus the situation reduces itself to a matter of trade and aid, and American world trade, as we have seen, does not have a broad base.

We are making foreign loans through private and public channels. Private loans usually go to build plants, develop natural resources or provide services, like banking or shipping, which provide profits. Governmental lend-

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ing, with its stronger connotations of political influence, is ordinarily designed to finance undertakings like the building of roads or water-supply systems, which are indispensable for economic development but which are not necessarily self-liquidating. The official loans are also used to increase the local government's power and military establishment. At all events, the recipient of foreign funds is always glad to get them; it has acquired that much more than the little or nothing that its own economy produces.

American operations in underdeveloped foreign lands must be proportioned with great skill. The investments should be carefully timed with developments in the country of investment and the world in general. The underdeveloped country itself badly needs the capital. It is asking for outside funds because it lacks the savings to start off investments on its own. The relationship frequently has a political character as well. The results are bound to change local economic, political and military structures.

The United States itself passed with tremendous speed from being an avid private borrower to an intrepid lender on both private and governmental accounts. Foreign capital enabled us to produce the goods which provided us with an export surplus in our merchandise

trade by as early as 1876.

The surplus was first used to pay off foreign debts, but then it permitted the making of foreign loans. Thus the United States had total foreign investments of 10.6 billion dollars and a net creditor position of 4.9 billions by the beginning of World War II. Of its total foreign placements, seven billion dollars was in direct physical property like factories, mines and oil wells, and the rest was in stocks, bonds and other paper. About 35 per cent of its investments were in Canada, 35 per cent in Latin America, 20 per cent in Europe, and 10 per cent in Africa, Asia and Oceania. Almost all of this was in private hands because the so-called "war debts" of World War I had either been repaid or gone into default.

Private character

Since America's entry into World War II, our foreign investments have been largely, although not exclusively, of a private character. The federal government has, for its part, concentrated on gifts instead of loans to foreign countries. The situation has many interesting implications in the trade-and-aid context.

We have seen that we can help the world only to a limited extent in terms of trade because our world trade—well under an annual 30 billion dollars—is just a

small fraction of total world trade. A trade limitation, moreover, implies an investment limitation. How has the world's deficit with us been made up? What are the limitations on us in demanding repayment and in giving aid?

Both World Wars furnish illuminating comparisons. After World War I the Allied powers owed the United States government seven billion dollars and then proceeded to borrow three billions more. Our war debtors eventually paid us 2,735,000,000 dollars, almost exactly the amount paid by Germany in reparations to Great Britain, France, Italy and Belgium. This was very nearly the amount lent Germany by our government and American investors.

Thus our debtors reacted by constructing a kind of closed circuit. There was a lot of financial circulation, but the contact to the United States was a mock switch. In effect, the United States got back practically nothing of the seven billion dollars outstanding. The "repayments" of 2,735,000,000 dollars came from our own funds; the route was: American loans to Germany, German reparations payments to the Allies, Allied refund of some American debts. The United States knew better than to concern itself with war debts after World War II.

The after effects of the second great war provide another in-

structive example. Since the war we have given away 56.3 billion dollars. This figure is nearly equal to the deficit of the rest of the world to America in merchandise trade during the same period. The moral of the story is, at least, financially sound. You cannot get blood out of a stone unless you are a particularly sanguinary Moses. Just as we paid off the world's war debts after the First World War, so we have provided the means by which the world has been paying off its post-World War II trade deficit to us.

It is true that we have been using part of our own substance to support foreign countries. But we were climbing new altitudes of American living standards at the same time; we could both live well and help the world to better its condition. We simply could not refuse to trade with the world because it could not afford to pay us. The imperatives of foreign policy, if we rejected all humanitarian motive, demanded a modicum of well-being in the world.

Embarrassment of riches

Our aid program, despite Congressional resistance, is running at a rate of four billion dollars annually. Only one-eighth of this is in economic assistance. Thus military subsidies are helping indirectly to pay part of the world's trade deficit. The opponent of for-

eign aid can often be argued to relative quiescence by emphasizing the proportion of military assistance involved. No one will deny the primacy of American defense needs. But the foreign countries can, to an extent, reallocate their budgets so that they spend more on civilian needs, since the United States provides for many of their military expenditures. The closed circuit reappears in various forms.

We are, moreover, faced with that peculiar embarrassment of riches: wealth attracts wealth. Our investments are bringing dividends, and the products of our economy find eager purchasers.

Among economists there is almost universal agreement that the American policy of lending and giving to the economically less fortunate peoples of the world is highly desirable. Many of them believe that there should be greater economic equality in the world. Our statesmen and/or politicians also favor a continuation of aid despite disputes about the relative amounts.

But if there are limitations on the amount of foreign investments and trade, there are also sharp logical restrictions on the amount of aid we can grant. Perhaps the time has come to ask for more precise criteria of American grants to the world-at-large. Can we fill the dinner pails of the world

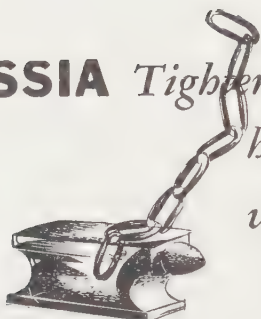
if little or no effort is made to limit the number of mouths concerned? Do our investments and gifts actually win friends? Is it possible that our assistance to foreign economic development may not create a behemoth to destroy us?

Consider the present outlines of American public and private actions abroad in the economic sphere. The most optimistic aspect of our private business operations is that the bulk of our investments is in the Western Hemisphere. We have no organized political hostility to fear, and the economic development supplements rather than supplants our own.

The most hopeful phase our governmental aid to foreign lands is that the major portion—about 64 per cent—has gone to Western Europe, where the same principles are cherished and where there is a will to preserve our way of life against aggression from any other civilization. It is true that the emphasis is moving away from the West in our aid programs, but, as I have indicated, economic aid is getting smaller and the West can help itself better today.

A continuing problem of statesmanship, both in business and in government, will be, as it has always been in dominant economies, to determine how much of our annual national product should be devoted to development abroad and how much used at home. ■

RUSSIA *Tightens* *her Links* *with* **CHINA**



by Arthur S. Barron

Soviet experts and capital force-feed China with industrial modernization

ONE OF THE most startling features of Red China's economy is the degree to which it is supported by the Soviet Union. It would be no exaggeration to state that without this support the progress of the Chinese economy would be much slower, and the survival of the Communist regime would be jeopardized.

Soviet involvement in Communist China's economy has taken three forms: trade, aid and technical assistance. The overwhelming part of the aid appears to be in the form of long-term loans, Russian generosity having a time limit which may or may not be enforced. Concealed by iron and bamboo curtains, the details are lacking and statistics are next to impossible to obtain; but the broad outline is discernible.

Before World War II, less than one per cent of China's trade was conducted with what are now

Soviet orbit countries. Today, the Communist bloc accounts for more than 60 per cent of China's trade commitments. In July 1955, Red China embarked on its first five-year plan. Patterned on the Soviet model, the plan set very ambitious targets in heavy industry—a threefold increase in steel production, a twofold increase in power and cement, an increase in the capital sector of the economy of 126 per cent.

Significantly, the Soviets took on much of the burden of this plan by agreeing to equip or build for the Chinese 156 new industrial units. Without the fulfillment of this promise, the plan could not possibly succeed. The attainment of even the most basic Chinese goals depends on the completion of these enterprises by the Soviets.

In all, better than one-quarter of the annual capital investment required for China's industrial-

zation comes from the Soviet Union. Since basic construction costs are covered by local materials and manpower, this represents an extraordinarily high degree of dependence on foreign sources.

The goods shipped by Russia are essential to the development of the Chinese economy. More than two-thirds of all imports from the Soviet Union are capital goods, mostly machines. Substantial quantities of raw materials like rubber and petroleum are also shipped. Without these highly strategic goods, China could not even set out on industrialization.

In exchange for these imports, Red China ships Russia agricultural raw materials. Soybeans, for example, account for 30 per cent of her total exports. Obviously, China intends to barter her way into the industrial age by exchanging agricultural "surplus" for heavy equipment. To date, her only partner in such barter has been the Soviet Union.

The question that immediately arises is whether trade of this sort between Red China and Russia can be justified on purely economic grounds. Is such trade economically "profitable" to both sides? Or are there other factors which account for its existence?

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Examined closely, the current pattern of Soviet-Chinese trade appears to be disadvantageous in a narrow economic sense to both sides; more so, perhaps, to the Chinese than to the Russians.

Like China, the USSR also exports farm produce and agricultural raw materials in return for imports of capital goods. For Russian planners, also, capital goods are high priority, while agricultural raw materials are low priority. Yet, to meet its commitments to China, Russia must accept the latter in exchange for the former. This, it is calculated, is accomplished at a cost of two per cent of Russia's total capital investment. Since very little flexibility resides in the allocation of capital investment in the Soviet economy, this represents a significant burden.

Soviet imports from China also represent a burden. Normally, Russia would provide a market for only 15 to 20 per cent of China's exports. Instead, it absorbs two or three times more. This is accomplished at a sacrifice. The fact that Russia "dumps" many of her Chinese imports on Western European markets at prices lower than she has paid for them attests to this.

China, for her part, welcomes the opportunity of trading soybeans and tung oil for machines, particularly since trade embar-

goes make it difficult for her to obtain these elsewhere. However, Hong Kong statistics indicate that if China's trade with the USSR were conducted at world prices, Peiping would obtain five to 10 per cent more imports in exchange for the same amount of exports. Though this inequity more likely reflects a situation of capital goods scarcity in the Soviet Union rather than exploitation of China by the Russians, it is still costly to the Chinese.

However, these heavy economic charges are balanced by massive advantages to both sides. Soviet Russia has a giant partner in standing off the West; Red China is hurling herself into the 20th century with indispensable Russian aid. The advantages might seem valueless to a brutally exploited Chinese worker or peasant, but Communist *Realpolitik* measures progress in terms of tons of steel, kilometers of railroad track-age and numbers of engineers produced.

Direct military aid

Direct Soviet aid to Red China has largely taken the form of military assistance. In 1954, for example, an easily missed item in the Soviet budget allotted a 500-million-dollar loan to the Chinese for military goods. There is every reason to assume that aid at this level or better is maintained each

year. At present, known Soviet grants-in-aid for other purposes amount to some 26 million dollars a year. This is used primarily for the construction and equipping of new industrial enterprises. Other direct money grants may be given, but are not visible in available statistics.

Russia has been lavish with technical assistance. Literally thousands of Russian technical advisors—scientists, engineers, managers—work directly on location with the Chinese. Similarly, thousands of Chinese prepare themselves for technical careers at Soviet universities. This kind of help is indispensable. It is also given with a shrewd eye for Chinese sensibilities. The Soviets have been careful to limit their role to advice. All information indicates that policy-making is carefully left to the Chinese.

What are the political implications of all this? There are two schools of thought. Some observers feel that the situation actually works to the West's advantage. It is argued that the current pattern places a strain on the Soviet economy, sets China in direct competition with the satellites for goods, reduces China's capacity to act in an independent, aggressive fashion. These observers see a "war-like" and "intractable" China held in check by a more "conservative" and "cautious" Russia. They also

point to increasing strains in the Chinese economy. Recently, it was announced that the proposed rate of industrial expansion for 1957 in China is only one-fifth of what was attained in 1956. The hope is that with continued dependence on Russia, these strains will be intensified.

"Titoist" tendencies?

Other analysts argue that the current pattern works to the disadvantage of the West. They therefore advocate policies that would destroy this dependence. They hold that once free of the Soviet economy, the Chinese will pursue a more independent course, both in their dealings with the West and with Russia. The hope is that, given more bargaining power, the Chinese will develop "Titoist" tendencies. These observers point out that Mao has already modified Marxist ideology. Given a freer hand, they argue, he will come into direct conflict with the Soviets. This school urges dropping all trade restrictions on Red China and seating her in the UN.

Viewed closely, the first theory seems to have more merit. Actually there is very little hard evidence to indicate that were the West to make it easier for China in any respect, economic or political, this would encourage strains in the Moscow-Peiping axis. The facts,

however, are to the contrary.

Russia has done everything it could to nourish the alliance. It has removed all sources of potential conflict on territories by giving the Chinese a totally dominant role in Manchuria, Sinkiang and Inner Mongolia. It supported China completely in the Korean war. It supports the Chinese economy at some considerable expense to itself. In matters of ideology, it consistently encourages China's "creative contribution to the development of socialist thought." More important, it has recognized China's primacy in Southeast Asia, Korea, Burma, Indochina and Indonesia.

China, for her part, shares the same world view as Russia. Aside from certain ideological divergencies, the present regime is dedicated to the maintenance of totalitarian power and to world Communist domination. The common desire to destroy the free world outweighs any competitive ambitions which either China or Russia might entertain. Also, China needs Russia, and will continue to need her in years to come, for military assistance and for the technical direction of her economy. Committed to the Soviet pattern of industrialization, China urgently needs the organizational and planning know-how the Soviets can provide.

If this line of reasoning is cor-

rect, certain strategies suggest themselves to the West. First, it would seem sensible to maintain as much of the trade embargo program as is possible. This will be difficult, since only last May Great Britain, followed quickly by other countries, removed several categories of goods from the embargo list. Still, the embargo as such does place a strain on the Soviet and Chinese resources, and this should be maintained. Second, a massive attempt should be made to consolidate the West's position among the non-Communist countries of Asia, particularly Japan, India and Indonesia. These nations should be intensively developed as counterweights to China's power and prestige in Asia. Their natural wealth and economic potential must be denied to China in her expansionist aims. Third, so as not to contribute anything to the status or prestige of Red China in Asia—and thus to her influence over the noncommitted nations—the West must continue to oppose China's entry into the UN. Finally, every step should be

taken to lessen the need for such countries as Great Britain and Japan to trade with China. This may require tariff concessions and support for such instrumentalities as European trade federation.

There is not a kilometer of frontier in the world that does not today pose demands on American international policy. Red China has one of the longest and most problematical frontiers in the world. According to population estimates, China has an overwhelming mass of 600 million compared to Soviet Russia's 200 million and the American near-170 million inhabitants. The estimates can claim no great accuracy, but they do not require accuracy to provide us with a measure of the human forces that face us behind dark curtains.

These figures suggest that tests of brute strength would not be in the interest of American policy. We might find that subtlety, a traditional approach that the Red Chinese themselves seem to despise, would work well for us in the Orient. ■

Really the Fault of the Pigs

"...ONE OF THE major aims of these government programs has been to reduce [crop] output—from plowing under the pigs through stringent acreage controls right on to the current soil bank, which pays farmers handsomely for taking land out of production. The plans have failed because technological advances have conspired with good weather in many years to increase the yield from each acre far beyond the wildest dreams. . . ."—*The Wall Street Journal*

The Liberal Ludwig Erhard

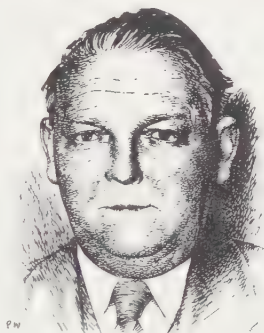
Germany's apostle of a free-enterprise system fights to keep it free

THE selection of the unknown Doktor Ludwig Erhard for his important post-war role in West Germany seemed to ignore a century of history. The man was what a 19th-century German would have called a liberal, and a Victorian Englishman would have called a free trader. He was pre-Marx, pre-Keynes and pre-Hjalmar Schacht.

Erhard's conservatism sounded like dangerous radicalism in the context of economic controls of a depression-ridden, war-organized economy. The shiny world of 1957 finds Economics Minister Erhard a symbol of its success, but he had only one great distinction after the 1945 German defeat: he was free of Nazi associations. To some observers it was like resurrecting a brontosaurus because you could be sure he had no fleas.

It did not take long, however,

With each issue, CHALLENGE profiles a person whose thinking affects the pace of the United States economy.



for the former head of an obscure Nuremberg market research office to prove that his essential value was not innocuousness. If Erhard owed the beginnings of his postwar career to the favor of the British and Americans, he refused to bend his

opinions to theirs.

Erhard became an effective economist by being an effective politician. After winning his first renown under Anglo-American aegis, he supported Konrad Adenauer during the 1949 elections and was rewarded with the Economics Ministry. He was, however, too independent for the authoritative Chancellor, and Adenauer might have been happy to let him go after the elections of 1953. By this time the German industrialists, who liked most of what he did and who figured they could handle his anticartel actions, were powerful and friendly to Erhard. Erhard stayed.

A Bavarian by birth, Erhard

held commerce and economics posts in the Bavarian cabinet in 1945 and 1946. He was named head in 1947 of the special office under American and British authority that prepared the currency devaluation of June 20, 1948. He was then, in 1948-1949, Director of the Department of Economics in Bizonal Economic Territory.

An apocryphal story says he slipped into his office on a Saturday, when the occupation authorities were taking their ease, and promulgated the abolition of allocations, rationing and many price controls. The fact is that he had to override the objections of British and American officials without such tricks, but he had the support of Gen. Lucius D. Clay, American High Commissioner.

Erhard's economic line was firm. During the 1949 election campaign he responded to Socialist jeers: "I remain confident of the energy and determination of the German people. . . .What we need is optimism, not control."

Erhard, now 60, is the plump, ebullient embodiment of German optimism and prosperity. Indeed, his Bavarian bulk preceded the prosperity and was the sincere promise of it. Production was up 50 per cent within six months of the 1948 devaluation, and the steeply rising West German economy, while absorbing 11 million refugees, continued to support the

Erhard philosophy magnificently.

As protagonist of the free economy, Erhard had made an effective anticartel law an important objective. As a good politician, Erhard announced his willingness to live with the rather weak anticartel law that the German legislature recently got around to passing. The law cannot be described as a particularly exhilarating peak to Erhard's career, and a lot depends on the way it is administered in a country that finds cartels natural.

It is interesting to note that Erhard won his distinction in a cabinet post that the United States, Great Britain, France and most countries do without. Actually, the day-to-day economics functions are carried out in Germany, as in the other countries, by the finance ministry. Erhard's post was originally an emergency one, and the prosperity he helped bring about has reduced its administrative importance. But this is not meant to minimize the informal power he has exercised outside of official channels. Moreover, German prosperity created new problems on an international plane, like devaluation and revaluation, and Erhard was clearly the man to deal with the foreigners—on a less humble level than during the postwar days. He will remain a persuasive salesman for the American type of economy.—D. F.

The Socialist's Dilemma

Europe's Socialist parties
find their traditional
platforms irrelevant to
contemporary problems

by Sigmund Neumann

WHERE does Europe's socialism stand today? What began as the desperate outcry of a small band of revolutionaries has, within a century, led to the re-establishment of responsible, powerful political parties that challenge the Continent's ruling regimes. At times and in places they have even conquered the citadels of control.

The Socialists have attained a position of strength in major European nations. They have continuously held governmental power in Scandinavian countries. They are Her Majesty's prospective majority party after the next British elections. Although badly beaten six weeks ago, they remain the only serious contender against the ruling Christian Democrats in West Germany. Even in the more complex multi-party systems of France and Italy, they have played a leading role in practically all cabinet reshuffles.

Yet, in this process towards respectability and renown, have Socialist parties kept faith with their radical traditions? And in any event, is their present program in tune with our time? The Socialists themselves are asking these questions, for never before has there been greater confusion and controversy in the Socialist camp concerning the parties' program.

Are these the typical growing pains of rapidly evolving political movements at last coming of age? Or have the Socialists grown old before they even had a chance at a full life of political maturity?

There are several ways for a political party to become dated and then quickly outdated. Its original program may have been fulfilled (no matter by whom); or it may have been tried and found lacking. Or the program may simply have become irrelevant to new challenges that can no longer be

met by the old prescriptions. Any one of these developments, and probably a combination of all of them, may have led to the undeniable atrophy of socialist doctrine.

In all justice, it might be admitted that the Socialists are not alone in their dilemma. Today, every political movement is faced with the necessity of continuously updating its program of vital issues. In a speedily changing social world an intellectual housecleaning has become a daily necessity. We are all living within the ideological framework of a hundred years ago. We try to master our present-day political conflicts with yesteryears' obsolete weapons. That is how Czechoslovakia disappeared behind the iron curtain; 1948 could not be handled with the romantic stereotypes of 1848.

Formative experiences

Political parties are particularly prone to such a discrepancy between programmatic confessions and political necessities. For one thing, their own interests are often atrophied by the very organizations they created to further those interests. Moreover, they are represented by leaders who had turned to politics under the impact of the problems of their impressionable youth—a generation ago. These formative experi-

ences became the guiding stars of the mature statesmen who are now to inspire a new generation, faced with altogether different issues.

But why do the Socialists seem to be the hardest hit by the problem of ideological obsolescence? European socialism is today *the* historical party with all the liabilities and frustrations that go with such a position—a rigid tradition of program, personalities and organization. Certainly, its political opponents, even where operating under the old name, are often the young parties who claim to represent “the wave of the future.” What is European socialism doing about this situation?

To find a cure, one must first diagnose the cause of trouble. What then does trouble European socialism? The simple truth of the matter is that its original opponent—capitalism—has not acted according to the book. Since that electrifying, revolutionary *Communist Manifesto* more than a century ago (and maybe thanks to it), Europe has responded with equally revolutionary measures that have made the somber, “scientific,” Marx-Engels predictions of the increasing impoverishment of ever-increasing proletarian masses a mere fiction. The initial aims and ambitions of the socialist

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movement have found at least a partial fulfillment in the legislative and administrative measures of the Western society.

The welfare state has completely changed the social and political climate of Europe and has knocked some of the substance and much of the drama out of the socialist appeal. One may well argue whether this transformed economy of practically full employment, social security and approximated equalization of opportunity and even income can still be called capitalistic.

Academic question

For the Socialist, this question is purely academic. The real question still is: What goals can present-day socialism aspire to? Is it further nationalization of the means of production distribution and exchange? Is it codetermination and cooperation in the industrial sphere? Or are altogether new issues popping up which have not even reached the threshold of Socialist conscience?

The most extensive and articulate discussion of these problems has been going on in Britain. The Labour party's new policy statements, *Public Enterprise and Industry and Society*, are, of course, the vague products of drawn-out committee compromises. But they do reflect an attitude that wants to come to terms with capitalism.

Although they repledge the party to renationalize steel, if it comes into power, they suggest only minor modifications in the area of public enterprise. Even more surprising is the fact that these "soft" recommendations received only listless criticism from the left-wing opposition within the Labour party. The experiences with public enterprises after World War II in England (and in France and Italy as well) were such that it is probably fair to conclude that this issue has definitely lost its rallying power and mass appeal.

This explains in part why the belligerent leftists in England, and elsewhere, have been so quiet. The most searching evaluations have come from moderates, such as Hugh Gaitskell (*Socialism and Nationalization*), Kingsley Martin (*Socialism and the Welfare State*) and above all C.A.R. Crosland (*The Future of Socialism*).

All three agree that the new challenges for socialism are no longer to be found primarily in the economic field. They are becoming increasingly concerned with human freedom in the welfare state, Gaitskell emphasizing the possibilities of individual initiative; Martin, a more local group involvement within the society; and Crosland, the development of personality and the spread of culture. The idea of class warfare seems to have been totally aban-

done, for the party now aspires to the national majority support in the coming elections.

Similarly, the German Social Democrats also emphasized in last September's election campaign that the vital problems of the German people can be solved only through the cooperation of all groups, including the opposition Christian Democrats. The Social Democrats' program is characteristically vague about economic tenets. Nationalization is hardly mentioned. The idea of codetermination in industry, which only a few years back seemed to take a central position in socialism's fight for true industrial democracy, has lost much of its appeal, partly because the Adenauer government incorporated it into its own program. What remains is a demand that coal mines and atomic industries be "placed under democratic control as the foundation of prosperity for all"—whatever that may mean. Its other economic aims—"unimpeded economic development" and comprehensive social security and public health programs are probably shared by Economics Minister Ludwig Erhard's (*see page 27*) followers of the "social market economy." Such policies may be undoubtedly popular, but they hardly invite a change in governmental stewardship.

What is surprising is that the

Socialists have not seized upon more pressing and timely economic issues, such as productivity, inflation and automation. Is it because these burning problems do not provide any vote-getting appeal? Or is it because such problems are not relevant to the traditional dividing line of capitalism and socialism? Or is it just that the socialist thinkers have so far been unable to reach a common agreement? In any case, this failure to find constructive answers to vital problems can prove fatal to any major party.

Deep-seated Philistinism

In the light of this failure to tackle the pressing economic issues, it is interesting to observe the increasing emphasis being placed by the British Labour party on the cultural aspects of democracy, education and the arts, housing and all those other aspects of life contributing to the grace of living. There is a growing realization among sensitive Socialists that a class society is not dissolved with increased social security and incomes. A greater prosperity may reveal more clearly a deep-seated Philistinism in the lower classes.

It is for this reason that C.A.R. Crosland appeals to his Socialist contemporaries to shift their attention from economic to social equality, and from redistribution

of income (largely attained by stringent policies of taxation) to changes in the style of life, education, consumption patterns and industrial relations. Says he: "Posthumously the Webbs have won their battle and converted a generation to their standards. Now the time has come for a reaction: for a greater emphasis on private life, on freedom and dissent, on culture, beauty and even frivolity. Total abstinence and a good filing system are not now the right signposts to the socialist Utopia." It will be interesting to watch whether such a new credo, which has found some response among socialist intellectuals, will arouse the mass support needed for Her Majesty's next government.

The Socialist leaders, on the other hand, have focused most of their attention on foreign affairs. The shift to world politics may well be indicative of a general trend in party alignments. Certainly, the Socialists could make out a good case for a "social security" that in this global, atomic

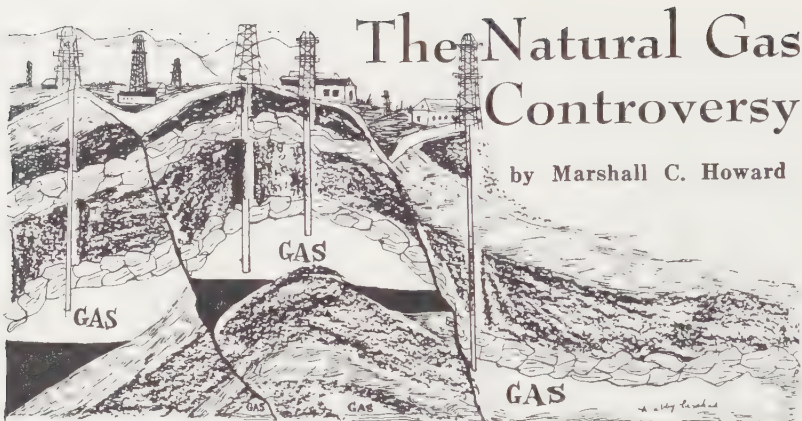
age might be attainable only through a new outlook on international affairs. Hugh Gaitskill, British Labour's party leader, in his most recent volume, considers the question of *The Challenge of Co-existence*, and the German Socialist party leaders have concentrated their attacks almost exclusively on Adenauer's foreign policies.

World affairs may well be the new shibboleth in Europe's present-day party line-up. If this is the case, then party leaders in all quarters will have to learn a great deal about bringing home to their own people the far distant issues of universal concern and will protect, at the same time, their national cohesion which still constitutes the basic strength of action in international politics.

Such a new outlook, so different from the primarily economic aspirations of young socialism a century ago, will test its staying power in our time. So far, European socialism has hardly begun to spell out such a fresh challenge. ■

Investigate the Weatherman?

"... A SEVEN-YEAR BATTLE over what government agency should have the final say over rainmaking... is now in its final stages. If the pending Senate bill S 86 is passed, the National Science Foundation will direct such operations. This was the recommendation of the Senate Committee on Interstate and Foreign Commerce. The great clamor that began when the first cloud-seeding experiments were undertaken, in 1946, has never abated appreciably..."—*Scope Weekly*



How do you set prices that are low enough for the consumer, and yet high enough to encourage further development by producers?

THE POSTWAR years have seen an expanding demand for natural gas, made possible by new and efficient methods of construction and laying of high-pressure seamless pipeline. Practically the entire nation is today connected with the heart of the natural gas producing region—Texas, Louisiana, Oklahoma, Kansas and New Mexico—which today accounts for more than 88 per cent of the nation's gas reserves.

Moreover, natural gas is being increasingly used for so-called "superior" purposes, such as household and commercial heating and cooking, as well as for such specialized industrial uses as heat-treating and certain types of chemicals production. These uses are "superior" in the sense that consumers are willing to pay a

higher price for natural gas than for other fuels of equal contained energy because of convenience or performance. The principal "inferior" use, on the other hand, is as an industrial or utility boiler fuel.

Just a decade ago, before the advent of now numerous interstate pipelines, the problem was how to get a higher price for such a valuable resource and how to prevent the flaring of gas into the air as waste.

Today the main problem is to protect consumers against price increases of a resource which is becoming relatively more scarce without at the same time dampening the incentive of producers to expand the supply so as to accommodate new consumers.

As "natural monopolies," the

local distribution systems are generally subject to regulation by state public utility commissions, while the interstate pipeline companies are subject to regulation by the Federal Power Commission. But what about the producers of natural gas in the field who supply these pipelines? Is the supply adequate, and is it in enough different hands to insure that "competition" will result in the consumer paying no more than a "reasonable" price?

The life index of natural gas has been declining, from roughly 32 years in 1946 to 22 years in 1955. This index is computed by dividing remaining recoverable reserves by current annual production. Of course, such an index can be declining even though there are net additions to supply each year. In fact, from 1946 on, the annual ratio of discoveries to net production has been around two to one.

When a prospective interstate pipeline applies for a certificate of public convenience and necessity, it must show that it will have an adequate market and the supplies to meet that demand for a period of several years. Indeed, 20-year supply contracts are common. Thus, even though reserves

may be growing, it may still be getting increasingly difficult to obtain supplies which have not already been pre-empted by an existing pipeline and group of consumers.

Suppliers naturally hesitate to sign such long-term contracts without the inclusion of some price escalation clause, for field prices have been steadily rising during the last 10 years. Whereas the average field price of gas in the Southwest was 3.1 cents per thousand cubic feet in 1945, it was an estimated 8.9 cents in 1954, with prices ranging up to 24 cents on new long-term contracts. Much of this price increase has been due to the demand created by the new pipelines. But costs are also rising as additions to supply require deeper drillings and new discoveries are of smaller and more scattered fields. Even so, the price of gas in the fields of the Southwest is generally less than 10 per cent of the ultimate price to the consumer in the distant North or Northeast.

The interstate pipeline companies as a whole produce roughly one-fifth of their natural gas supplies, but more than 4,000 independent producers account for the rest. Five large oil and gas companies sell 27 per cent of the total volume. Twenty-nine companies sell 63 per cent. On the other hand, 85 per cent of the sellers sell only

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two per cent of the volume. These percentages in themselves would not generally be considered to represent an inordinately high degree of concentration, but prorationing, which insures all well-owners in a given field a "fair" share of the market, results in a whole gas field bargaining, in effect, as a unit.

Rate-base method

For a decade prior to 1954, only natural gas produced by the pipeline companies themselves was subject to regulation. Such production was subject to the traditional type of public-utility control, the rate-base method of price determination. This method allows a "fair return," generally around six per cent, on the "fair value" of the investment. The Federal Power Commission has defined fair value as the original cost of the assets involved less reserves for depreciation and depletion. Recoverable costs of service include all those production-operating expenses and exploratory and developmental outlays which are not treated as part of capital investment. Thus, good luck in discovery, which keeps costs down, will be passed on to the consumer.

In 1954, the Supreme Court, in its *Phillips Petroleum* decision, made all production of natural gas entering interstate commerce for resale subject to the regulation of

the FPC. The commission was thus faced with the possible necessity of determining fair return on fair value for more than 4,000 producers. It met this problem by subjecting to Commission approval all price increases to interstate pipelines.

Just prior to the *Phillips Petroleum* decision, the Commission had attempted to substitute for the rate-base method a "fair field price" method of price determination whereby pipeline companies would receive for their gas roughly the same price as others in the field were receiving, without special regard to the cost of the investment. But to date, the Commission's sole use of this fair field price method was turned down by the U. S. Court of Appeals in late 1955.

In 1956, Congress passed legislation which would limit the regulatory authority of the Commission over field prices to the indirect form of insuring that such prices were no more than "reasonable market prices," but the measure was vetoed. President Eisenhower stated that he was in full accord with the stated objectives of the bill, but vetoed it because of "arrogant" lobbying activity. Efforts in Congress in 1957 to pass similar legislation on natural gas were sidetracked by the prolonged discussions on civil rights, but will no doubt be renewed next year.

In general, the groups fighting for the adoption of a fair field price have been the oil and gas producers as well as Congressmen from the producing states. Opponents include gas consumers and Congressmen from the nonproducing states. Organized labor is also opposed to the fair field price.

A fair field price would avoid one apparent disadvantage of the rate-base method of price determination when applied to a resource like natural gas, where costs depend a good deal on luck in exploration. As Supreme Court Justice Jackson has pointed out: "The service one renders to society in the gas business is measured by what he gets out of the ground, not by what he puts into it, and there is little more relation between the investment and the results than in a game of poker." Besides, to have the same gas sell for different prices in the same general location may seem somewhat strange.

The role of luck

On the other hand, the proposition that all gas should sell for roughly the same price in the same general region also has its problems. For, what should that price be? Should it be the price which would just cover the costs of the highest-cost producer or the least lucky explorer? What part should luck play in a public policy

which is designed to stimulate exploration and discovery of new natural gas supplies?

If there is to be but one price, moreover, escalation clauses would have to become part of long-term contracts in order to keep prices in step with rising costs. Under such a scheme, prices will inevitably rise as they become based upon each other, although competitive fuels would, of course, place a limit on price increases.

No clear-cut measure appears to exist which would at the same time assure a reasonable price for the consumer who buys today and the producer who is exploring and developing supplies for the consumer of the future. Of course, today most gas is found as a result of the search for oil. If the search for gas is undertaken for its own sake, then a reasonable market price might effectively provide the necessary incentives without injury to consumers if reasonable market price is not interpreted too literally to mean an identical price for all gas in a region, regardless of the time at which it is put up for sale. Escalation clauses could be so controlled as not to permit price decisions of the past to be altered unduly by the changing conditions of search as they occur in the present and future. After all, price decisions of a given moment are made with respect to future expectations. ■

Economics in **A**ction ---

king consumer

The consumer was clearly master of a situation that sometimes resembles a mad tea party more than a predictable economic order. He has ignored the factors that have led experts to predict a business slackening. He refused to let the vacation period distract him from substantial purchases, and department and chain store sales were at record heights through the summer and into the autumn. He is now preparing to approach the Christmas buying period with undaunted vigor.

cash and carry

Behind the consumer optimism was sound cash. His real purchasing power has risen 40 per cent since World War II, with most of the increase coming after 1951. Heavy consumer buying sustained the business rise in 1955, to be succeeded as a dominant factor in 1956 by investment in plant and equipment. The consumer then took over again in 1957, and he has been master ever since.

housing

The fall in housing construction, a depressive element since mid-1955, has apparently ended. Starts in private building promise a total of over a million for 1957. At the same time, the supply of mortgage money has eased.

super six

Auto sales went up so exuberantly after the end of summer that Detroit executives were now ready to predict big things for 1958. They see another year of sales on the six-million-dollar level. Led by demands from the auto industry, steel production was edging upward at a modest but steady rate.

background noise

Bear factors rumbled in the background. Business spending for new plant and equipment was leveling off after 10 years of almost steady rise. Predictions

for the year's final quarter see a slight drop from the third quarter rate, down 200 million dollars from 37.23 billions. This will be the first time in 12 quarters that capital spending will not rise.

**pick a
number**

The reasons for the flattening of the capital curve are clear. The capacity of American industry is enormous and the economy is operating at around 85 per cent of potential output. Business has also been reacting against expensive money as the inflationary aspects of the boom have begun to backfire against the boom itself. But figures tell only half the story; the interpretation must do the rest. Thus total capital expenditures this year of more than 37 billions are a healthy six per cent above last year. On the other hand 1956 was a spectacular 22 per cent above the preceding year. How bad is an unspectacular but healthy six per cent?

**happy is
the farmer**

The farmers, who failed to partake of the general burst of prosperity in the last few years, are at last beginning to see some improvements in their lot. The value of farm assets rose five per cent in 1956 while gross farm income was up by one per cent. Purchasing power was also increasing, to reverse a trend that had been downward since 1951. With farm prices steady and industrial prices leveling off, the farmers can expect another net gain when they make their books for this year.

**wide
world**

Our foreign trade remained a vigorous element in the economy despite the passing of the export peak that had been caused by the Suez crisis. Exports of goods and services were at an annual rate of 27 billion dollars in the second quarter, 3.5 billions above last year. To a certain extent the trade increase was supported by a buying binge in the purchaser countries, and we cannot expect to see it sustained. Many of our poorer customers lack the cash to keep up with their buying tastes.

caution

The biggest danger remains on the other side of the inflationary adjustment. As we begin to bring the inflation under control we shall inevitably experience factors tending toward recession. High discount rates worked in classic fashion and did persuade business to postpone some capital expenditures. Such indicators of business activity as freight car and heavy machinery orders have fallen off considerably. Business may discover that some expenditure postponements can be changed into cancellations. The premium is on far-sighted navigation and precise piloting.

* * *

**enter
sputnik**

WASHINGTON—A great deal of unexpected good came out of the Russian satellite. *Sputnik*, which sounds like something Al Capp might have named, shook the capital so intensely that almost every phase of our military and foreign policy has been brought to the surface for review. The Army, the Navy and the Air Force are on their way to being scrambled into one armed services unit. Research and development of new weapons will be coordinated into a single program. The conquest of space has No. 1 priority.

**Arab
“unity”**

In the Middle East our tactical foreign policy has been cracked wide open. The Eisenhower doctrine has run up against Arab “unity.” Russian maneuvering with Syria and Egypt has succeeded in isolating our strongest ally, Turkey. King Saud, Lebanon and Iraq have become noncommittal for fear that Israel might gain from Arab squabbling. The State Department is worried that any cooperation between Turkey and Israel would ruin the U.S. position with the “friendly” Arab states. Careful reanalysis now shows that the only way to fight Communist penetration of the area is to present our own version of the appeals of communism: encourage national sovereignty and assist in economic development.

**“sphere of
influence”**

Most careful attention is being focused on our poli-cy toward all so-called underdeveloped areas. The

biggest need is to prove to these peoples that American techniques can be productive without adoption of American traditions. Techniques can be conveyed; traditions and values can be misunderstood. With the Russians pressing so hard on so many fronts, no one now seriously thinks we can pull out of foreign aid. But what kind of aid? It must be nonpolitical, without a taint of creating a "sphere of influence." It must be popularly based, with extensive information about its scope made available to every human being in the countries involved. And it must be so imaginatively conceived and presented, perhaps through UN auspices, that it will evoke a spontaneous and voluntary response. Our purpose: to help underdeveloped areas to raise living standards within the scope of their own ideals. The cost: no more in money than present programs; much more in thought and imagination.

**old
policy**

Tito's recognition of East Germany opens a new era in political satellite relations. The Kremlin will now claim greater unity among "free" Communist states. Actually, the ideological base of that unity is nonexistent. Poland particularly remains restive. The Tito-Zhukhov talks were cordial, but changed nothing between Russia and Yugoslavia. Recognition of East Germany is a continuation of Tito's policy of doing business with both East and West.

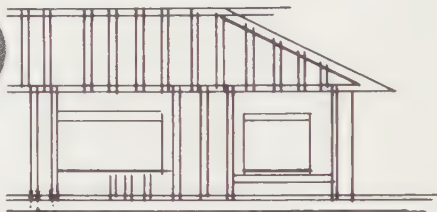
**economic
puzzle**

Economic talk is now slowly shifting away from inflation and toward deflation. The biggest worry is that "deflation" has come to mean a decline in spending by the private sectors of the economy. General price declines are not expected, but a dip in private employment is. The problem: Is high-level business activity impossible without inflation? And how can we lower taxes if government must start spending to fight deflationary trends? ■

There is an intricate relationship between the availability of mortgage credit and the construction industry

1/4% *and Housing*

by David M. Blank



OUTPUT in home construction achieved heights in early 1955 that had never before been reached in this country. But the trend in this important industry turned sharply downward from that period's seasonally adjusted annual rate of close to 1.5 million dwelling units.

The adjusted rate in 1957 has been about one million units. What does this one-third decline mean to the man who needs a home for his family?

People were marrying and setting up households at a declining rate in the first half of this decade. Thus net nonfarm household formation fell from 1,046,000 per year in 1950-1953 to 870,000 annually in 1953-1955. But then the rate climbed over the million mark during the past two years, precisely when construction was declining. The homeseeker of today discovers he is moving against a

stream of adverse statistics. Families have been booming if houses have not.

The situation is reflected in the national vacancy rates. From their peak of 2.8 per cent in the third quarter of 1956, the rates fell to 2.5 per cent in the fourth quarter of that year and to 2.3 per cent in the first quarter of 1957. It is a clear case of more families and fewer homes.

Can we say that hardship for the homeseeker has truly increased? I do not think the situation would justify an affirmative answer.

Postwar construction compares with 200,000 to 300,000 units started annually around 1900; about 400,000 just prior to World War I; over 900,000—a tremendous figure for that time and the American population—in 1925; and about 300,000—typically depressing—in the mid-Thirties.

Thus, we are still operating at high levels by historical standards despite the uncomfortable one-third decline.

The primary result of the present slowdown has been to force us to make fuller use of present housing. We cannot go on with one million new units per year indefinitely; the level of construction would become a real problem if it remained static for about five years. But conditions are relatively comfortable today compared to war and postwar shortages.

In any case, we are not resting passive in the face of the decline. Congress reacted this year by passing the 1957 Housing Act. Provisions include an increase in the maximum interest rate of loans backed by the Federal Housing Administration from five per cent to 5.25 per cent, and a reduction in down payment requirements under FHA terms. The action emphasized the existence of a very tight bond between housing and credit. The various elements of this relationship are as fascinating to explore as other, more human relationships.

One obvious weather sign has been a shift in capital funds away from the mortgage market. Money, like people, goes where it is best paid for its work. In recent years,

yields on high-grade municipal bonds have risen more than twice as much as FHA rates.

Economics can be a lesson in irony. The FHA, organized to help the home buyer, was hurting him because the lower FHA mortgage rates were driving the men with the money to better-paying borrowers. The home buyer could not get the mortgage money. The evidence for the shortage of mortgage funds can be found in the decline in home loans and the increasingly stringent mortgage loan terms.

More than three million homes were purchased in 1956, according to the Survey of Consumer Finances. Of these, more than two million already existed and about one million were newly built homes. The average price of homes purchased in 1956 was over 12,500 dollars, making a total of over 37 billion dollars in home investments.

How were these purchases financed? More than 80 per cent of them involved the use of mortgage financing. For those home buyers who used mortgage borrowing to help pay for their newly acquired homes, the average amount of debt incurred was about 8,500 dollars. Thus, total mortgage financing on homes purchased in 1956 probably reached 21 billion dollars or more.

Considerably more than half of

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the total paid for new and used homes in 1956 involved borrowed money. For newly built homes probably two-thirds was borrowed and one-third equity of the new owners. How do present-day structural characteristics of the mortgage market compare with those of 10, 20 and 30 years ago?

The public's attitude toward mortgage debt has changed remarkably. Half a century ago, a mortgage was something unusual, something to be feared and avoided. Today, it is the unusual home purchaser who does not pay a substantial portion of his purchase price with borrowed funds.

Changes in terms

Not quite three in every 10 non-farm homes in this country were mortgaged in 1890. The proportion had grown to four in 10 by 1920 and six in 10 in early 1957.

The biggest changes in home mortgage lending terms are in the interest rates, down-payment requirements, contract lengths and proportion of loans involving amortization. In 1920, home loans made by major financial institutions, such as life insurance companies, commercial banks and savings and loan associations, carried interest rates of roughly six to seven per cent. This level held pretty much through the Twenties and into the next decade.

Mortgage rates started to de-

cline by the late Thirties under the impact of FHA and the general fall in interest rates. The drop continued into the postwar period, when average interest rates on new home loans ranged between four and five per cent. The mortgage rates began rising early this decade along with other loan rates, and are now probably in the five-to-six per cent range.

The average home loan made by life insurance companies and commercial banks in 1920 represented about half of the purchase price of the home. Savings and loan associations were a bit more expansive, covering as much as 60 per cent. These proportions remained stable until the late Thirties when loan-to-value ratios started to rise under the influence of the FHA. In the early postwar years, the average mortgage borrower could get as much as three-quarters of his purchase price. But this proportion has reversed itself and gone down as interest rates have gone up in recent years.

Similarly, contract lengths of home mortgages have been substantially increased since the early Twenties. Home loans by life insurance companies and commercial banks typically carried terms of about three to six years in 1920. A rise came only late in the next decade, but it continued steadily into the war and early postwar period. Then, the usual life insur-

ance company loan was stretched over 20 years against the 12 to 15 years offered by commercial banks.

Savings and loan associations, traditionally makers of long-term mortgages, increased contract lengths from 11 years in the Twenties to 15 years in the early postwar period. But there has been a reduction of the contract times in the past five years.

Home loans have changed in another important characteristic. During the Twenties many were straight loans, with no part of the principal being required before the term of the loan. The whole principal fell due on the terminal date, but many people assumed that their loans would be automatically renewed. One out of every four life insurance company loans and one out of two commercial bank loans were of this sort.

Amortized loans

The FHA program has influenced matters to such an extent that nearly all mortgages today are amortized loans. Principal payments are made along with interest payments during the life of the loan, so that the principal will be fully paid off at the expiration date.

The FHA and Veterans' Administration programs, as we can see, have had a profound impact upon the mortgage market. They have resulted in longer terms and low-

er down payments. They have fostered the amortized mortgage and they have helped to reduce interest rates. In the postwar years, the FHA and VA programs have accounted for almost one-third and, in the record year 1955, for over one-half of all new homes.

The rise to an FHA interest rate of 5.25 per cent was another step in the reversal of the trend. The last quarter of one per cent rise under the recent housing act was only one of a series that began four years ago, when the rate was 4.25 per cent.

This effort to catch up with the borrowing rates in other sectors of the economy means a greater burden to the home owner but it is the lesser of evils; a more expensive house is better than none at all. The assumption is, of course, that a more prosperous America can afford more costly homes.

The problem is to coordinate the supply and demand of mortgage money in a way best for all concerned, borrowers, lenders and the country as a whole. It would appear that the FHA rate has been too low, that the advantage to the borrowers in terms of lower costs has been of less value than the disadvantage to everybody of reduced construction.

The effect of the FHA loan conditions on mortgages can be shown clearly by statistics. Non-FHA

loans have held fairly constant in number; the decline in housing starts has been almost entirely due to the decline in the FHA market.

Thus, the total number of private nonfarm dwelling units started in 1956 was 1,094,000, down 216,000 from the 1,310,000 starts in 1955. The number of dwelling units started without VA or FHA inspection held firm at close to 640,000 in both years. FHA and VA starts, however, dropped 210,000 from 670,000 in 1955 to 460,000 in 1956.

Not all explanations for the fall in construction are necessarily bound to the financial element. Some observers point out that the postwar housing boom was, after all, caused by a hardship that the boom has substantially wiped out. The 1,500,000 figure is surely not sacred. On the other hand, others

insist that the country deserves a better housing standard than it has ever had, that it should spend less money for gadgets and more for basic home comfort.

We are, in any case, committed to seeing the government play a major role in the housing situation. The changes in FHA lending conditions are, in sum, a technique for exerting federal leverage.

Thus, the 1957 Housing Act was an effort to end the decline. But the willingness of the lenders to produce the money at that rate is the real question. We do not yet know what the effect of the change will be. A real revival in home construction must take place in the next six to 12 months if we are to define the difference as a success. The one-third decline represents a massive problem. Is one-quarter of one per cent enough to solve it? ■

Answers to Challenge Quiz

- | | |
|-------------------------|--------------------------|
| (1) True (see page 60) | (7) False (see page 22) |
| (2) False (see page 42) | (8) False (see page 8) |
| (3) False (see page 34) | (9) False (see page 29) |
| (4) False (see page 69) | (10) True (see page 73) |
| (5) True (see page 15) | (11) True (see page 64) |
| (6) False (see page 17) | (12) False (see page 47) |



Paradise Lost

Milovan Djilas, in "The New Class,"
laments for a world that never was

by Haig Babian

MUCH HAS HAPPENED to the world and to Milovan Djilas since *The New Class* was "smuggled" out of Yugoslavia and published last July. Most particularly, the horizons of the former have been expanded into outer space, while those of the latter have been narrowed by a new seven-year jail sentence. The paradox should be crushing for a man like Djilas who can always use more room to exercise his well-developed intellect and insight. But Djilas is apparently resourceful. We shall hear from him again, even from jail.

Undoubtedly, a great deal of the interest generated by *The New Class* is due to the fact that a top-ranking Communist leader and theoretician has apparently recanted and presented to the world a damning indictment of communism. Yet, careful examination of *The New Class* would justify the conclusion that there is more that is important between the lines

than in black type. For, analyzing the inevitable failures of organized communism-in-action, Djilas actually achieves an emotional, even psychological, catharsis, thereby revealing much more than he may be conscious of.

In spite of its repetitive and subjective "old stuff," *The New Class* has the rare quality of provoking thought beyond the author's intent, perhaps beyond his grasp. And the first thought that came to this reader was about Tito. Was Tito asleep while Djilas was preparing his indictment?

Djilas mentions Tito, his former friend, comrade-in-arms and political associate, perhaps a half-dozen times; but he seems to wince on each occasion. "History will pardon Communists for much," Djilas says. "But the stifling of every divergent thought, the exclusive monopoly over thinking for the purpose of defending their personal interests, will nail the

Communists to a cross of shame in history." But Djilas seems unwilling to nail Tito, thereby inviting history to forgive Josip Broz for much that he has done.

It would probably be not too far from the truth to say that Djilas is acting as, or thinks he should act as, an expression of Tito's conscience. Whether the political break between Tito and Djilas is genuine is not important, for however one looks at it, what Djilas has written in *The New Class*, intentionally or unintentionally, provides an ideological base on which Tito can set his house, halfway between East and West.

"Cross of shame"

Thus, Djilas writes a book, which the West hails. Djilas goes to jail, which the East hails. Djilas nails communism's methods "to a cross of shame;" but Djilas speaks glowingly of Marx's revolutionary ideology and of Lenin's revolutionary tactics. Djilas begs for more freedom of thought; but he urges more nationalization of economic effort in the West. In short, Djilas denounces in no uncertain terms what the Bolshevik organization in Russia has made of communism; but he does not denounce the revolutionary ideology, the methods, or the purposes. In fact, what Djilas says can be taken as providing a rationalization for Titoism, which is something less

than what the West should want to see from a former Communist.

Little wonder, then, that Djilas was sentenced to a surprisingly short seven years of "strict confinement," with special visiting privileges and the ready availability of books, paper and pencil for the writing of more books—which undoubtedly will also find their way out of an ideologically porous Yugoslav prison. Djilas, as a supreme expert on the voraciousness of the Stalin-bred new class which rules Russia today, may even be rehabilitated at the proper moment to put his stamp of approval on Tito's "democratic" socialism. Tito, in all probability, would prefer to see that day, since he understands well what Djilas meant when he wrote: "The USSR is capable of uniting only that which it conquers."

Inevitable development

If Tito is fearful of being blotted out by the Soviet Goliath, Djilas is no less concerned with the turn that the Communist revolution has taken in the Soviet Union. His entire book is devoted to the emergence of a new ruling-ownership class in Russia—the antithesis of the promised "classless" society. This development was inevitable, Djilas tells us (and he is undoubtedly correct), for the following reasons:

- The industrialization of back-

ward Russia required a massive revolution in the prevailing ownership relationships.

- Such a revolution could only be directed by a tightly knit group, well-organized and unswerving in its ideological precepts. Once in power, this group had to impose its dogmatic will to evoke "harmonious" work toward the achievement of prescribed goals.

- Since so much had been promised to so many, the group necessarily had to perpetuate itself in exclusive power in order to find the time necessary to do the job.

The practical consequence of this order of things is, as Djilas tells us, that "the Communist revolution converts the revolutionaries themselves into creators and masters of a new social state. . . . The masses also participated in the Communist revolution; however, the fruits of the revolution do not fall to them, but to the bureaucracy."

Although much of what Djilas says was already known in the West, it would be incorrect to say that he wastes time in his meticulous dissection of a system which can produce earth satellites but not sufficient consumer goods for its own people. However, there is no doubt that Djilas laments when he says that the Russian revolution is dead and unrequited. He tells us, "The heroic era of com-

munist is past. The epoch of its great leaders has ended. . . . The new class has been created. It is at the height of its power and wealth, but it is without new ideas. It has nothing more to tell the people. The only thing that remains is for it to justify itself."

Ideologically sterile

But where will this ideologically sterile new class lead Russia? Djilas does not seem to be very sure of himself here. At one point he suggests that the class has begun to split up into factions and that new thoughts and ideas are creeping in. At another point he suggests that increasing industrialization will set the material basis for a better society and presumably lead to some changes. But the total summary of his vagaries is evident when he says, "Since revolution was only the first act of the despotic and totalitarian authority of a group, it is difficult to forecast the duration of that authority."

Once again, however, Milovan Djilas has thrown out enough ideas for a detached reader to draw conclusions that Djilas was either unable or unwilling to state.

If the masses of the Russian people are forfeiting the gains of industrialization for the benefit of the new class, then we are forced to consider how this new class, this blight on Russia and

the world, can be eliminated. Obviously, there are only two ways in which this can be done: either from without, or from within. The first of these alternatives, in the light of recent scientific developments, becomes increasingly unthinkable.

Cult of personality

This leaves us with the second alternative. In order to assess the chances of a purely domestic resolution of this problem, we must consider three questions.

One: *How well entrenched is the new class?* The answer to that, unfortunately, is that the new class is very well entrenched. The entire Khrushchev denunciation of Stalinism and of the cult of the personality can be represented as the Magna Charta of the new class in Russia—a declaration of rights of a privileged class seeking guarantees against the whim and depredations of an autocrat (the Stalin-type dictatorship). Indeed, the new class has emerged so much as a power unto itself that it has been able to win the right not to be destroyed for failing to maintain individual power and prestige. The first expression of this new right was in the Molotov-Malenkov-Kaganovich episode. These men were not shot; they were “demoted.” Finally, the new class has fanned out so far and wide from the central point in the

Kremlin that it has become necessary to decentralize the economy so that members of the new class, throughout the far reaches of the Soviet Union, can exercise authority and collect benefits on their own.

Two: *Will it be possible for the new class to perpetuate itself? And if so, how?* Until now the composition of the new class in the Soviet Union has been very fluid—that is, recruits have been brought up from every strata of society. The revolution was a kind of melting pot that presented opportunities to the professional, the intellectual, the peasant boy, the factory worker and the technician. But the revolution is now over and done with, and the new class, being well-entrenched, will seek ways to give a permanent face to the caste, to find ways by which to pass on to descendants both position and material benefits accruing from that position. In short, the human propensity to accumulate and bequeath will freeze Russia's new class and tend to shape it into readily recognizable forms among certain privileged families. The mold already exists. If left undisturbed, it will harden.

Three: *Will the new class see the error of its ways and reverse present trends?* Never in history has any privileged class voluntarily surrendered its prerogatives.

There is no reason to believe that the new ruling-ownership class of Russia will act otherwise. Indeed, Djilas himself tells us that this is the epoch of practical men in Russia; that ideology no longer moves the ruling class. The only realistic conclusion that one can draw from all this is the supremely ironic one of a proletariat rising up, at some distant future, to destroy the descendants of those who thought they wanted to create a dictatorship of the proletariat.

Fought for nought

It is interesting to note that Djilas himself makes only the weakest kind of inference of this possibility. He is far more definite in suggesting that there might be a chance that members of the new class will recant and "devour" themselves. But this is merely an expression of his own preference, since he, Djilas, has done precisely that by denouncing communism at this stage in his life. Djilas overlooks the fact that he fought for communism barely 18 years ago. And, having fought so recently, he remembers what he fought for and sees that he fought for nought; that those who fought for communism's revolution in Russia 40 years ago are either dying or too old to count, and that consequently in another decade or so the vast majority of Russia's new class will be made up of indi-

viduals who neither fought nor want to remember what the revolution was about.

Two final thoughts come to mind upon reading *The New Class*. First, the privileged class in Russia is as much moved by considerations of personal gain as classical capitalists ever were. This class will drive the Russian worker to any length in order to inherit the riches of the world. We, on the other hand, have only a free society with which to marshal our own resources. The lines along which the cold war will be fought are very clear, indeed.

Second, Milovan Djilas, although he has recoiled from the beast that he loved so well, is at best only a hesitant ally of the West. He has arrived from the opposite end of the political spectrum to a midway point where other non-Communist neutralists now sit. How to win Djilas and all the other peoples who will undoubtedly come to hold the balance of power is the greatest task facing the West today. It isn't at all clear that those who recoil from Russian communism will necessarily embrace our values.

The New Class was hailed prematurely in the West; for its dissection of the ills of communism is also a call for re-examination of our own world. Djilas does not give us much room for comfort or complacency. ■

Kermit Bloomgarden

Leading Producer of
The American Theater



Broadway's New Brilliance

Q *Mr. Bloomgarden, the American theater has recently experienced both a commercial and artistic revival. How do you account for this?*

A Well, I think the main reason is that we've had some unusually fine plays. Also, in strict business terms, the public has more money to spend and the theater is getting some of this.

Q *One would assume, therefore, that one of your first cares in searching for a play and in producing it would be this element of quality.*

A There's no question about it. In my case, I choose plays that I like. I do not know whether audiences are going to like them or not. I just feel that when I like a play and produce it well, it has a 50-50 chance of being commercially successful. When one produces what one thinks the audience wants, whether one likes it or not, then I think the chance of success is one out of 50. My method of producing, I feel, is much more commercial than that of those who do plays because they think that they are commercial.

Q *That's a very heartening view of the theater. How do you resolve the conflict between good business and good art—that is to say, good theater?*

A I think they go hand-in-hand. I feel, that when I cast a play, I am adding to the value of the property—to the art in that play.

Q *What is the relation between the producer and the people of the play—director, actors and others?*

A The only time a producer makes an individual decision is when he decides to produce a play. That's the last time he makes an artistic decision on his own. The author and the producer decide together upon the designer. The author, the director and the producer decide upon the actors. Thus, the producer's last independent action takes place when he buys the play. After that, it is a matter of collaboration, and the better the collaboration, the better the play.

Q *Meanwhile, business factors must be considered.*

A I think my experience in the business world as an accountant stood me in good stead for that side of the producing business concerned with negotiations and contracts.

Q *What do you look for in a play in the flood of manuscripts which comes across your desk?*

A First, the quality of the writing, secondly, the richness and fullness of the characterization, and thirdly, the story.

Q *How do you think this season is shaping up?*

A I think that it looks very good. One reason I say that, without being immodest, is the fact that I'm doing two very fine works. There is a dramatization of Thomas Wolfe's *Look Homeward, Angel*, which is beautifully adapted by Ketti Frings. I also am producing a musical called *The Music Man*, which was written by Meredith Wilson, who also did the music and the lyrics. I feel that any season when one can produce two plays of this nature is going to be a good season. In addition, I am sure, there are other top-level works being planned. I know there are plays by Tennessee Williams, William Inge and many other fine playwrights.

Q *How do you think the off-Broadway theater affects Broadway?*

A I think the off-Broadway revival has been a wonderful thing for the theater. It shows the interest and the enthusiasm of the young people of the theater who want to work and who have finally found a place. It is good for us on Broadway because we're able to see much

new talent that we might not ordinarily see. We cannot judge actors by five- or ten-minute interviews.

Q *Do you think the off-Broadway stage also has an influence on the character of your productions?*

A It brings more people to the theater in the first place. It has got more people concerned with the theater from a professional as well as from the audience point of view. This is all to the good for the Broadway theater.

“Willing to mount almost any theatrical piece which has merit”

Q *There is a theory that possibly the off-Broadway theater might make for more experiments. Is this not true?*

A Off-Broadway theaters can make more experiments because their cost of production is only 10 or 15 per cent that of Broadway theaters. On the other hand, I believe the Broadway producer is individualistic and in many respects has greater artistic courage than some of the off-Broadway producers. Often he would be willing to experiment even more were it not for some of the other people. An important director, for example, will refuse to do a play because he is afraid of failure. I feel very strongly about this point. We, the Broadway producers, are willing to mount almost any theatrical piece which we feel has merit. The fact that the off-Broadway theater is also doing so is a wonderful thing, because many plays should be done which can't be done on Broadway. I was very happy to see the success of *Purple Dust*, the Sean O'Casey play. For a long time I tried to do it, but I couldn't cast it and I couldn't get the director that I wanted. They went ahead with it and did a very good job.

Q *When you say you couldn't cast it, why could you not do it, with your greater resources?*

A I wanted a lot of important actors for the play. Almost all of them turned it down and so did the directors. Off Broadway, they will take the chance on a less important actor when I cannot because of high initial costs.

Q *Having much lower expenses, they can take such chances while you have a certain net to bring in before you are, of course, financially sound.*

A That is right.

Q *Looking ahead, what do you see in the future for the American theater?*

A I see a continuing growth. The off-Broadway theater itself means a tremendous expansion for our particular area, but throughout the country there are more and more community theaters springing up. My feeling is that there will be more and more new playwrights coming into the field who will make their mark. From a commercial point of view, I regret that the theater was shut out of the Lincoln Square project—a redevelopment that could mean a lot to New York. We need the six new theaters desperately. It's almost criminal that subsidized arts have been able to get land for theaters while we, who are paying our own way, cannot acquire the sites. This is something that we need very badly.

Q *Then you look for continued growth in the American theater and what you see primarily is growing pains?*

A I think so. I think that more and more audiences will want to go to what they call the *round medium*—where they see the actors in the flesh. The wonderful growth of the community theater is bound to help this along. I think a certain boredom will come from watching television and pictures, and that more and more audiences (as long as the quality of our product remains high) will come to the theater.

Q *What has been the impact of television on the theater?*

A I think it may actually have helped the theater. You cannot feed material into that machine—which is a monster—and continue to get quality. And I think this is one of its big problems—finding the material for all those programs.

Q *How would you compare the American theater with the European stage?*

A The American theater is a more vigorous theater, but it does lack certain things you find in Europe. The English theater, for instance, has a finer style. One major force that we do have, however, is a whole generation of powerful playwrights, people with something to say and a sense of drama to communicate it.

Q *From what you have seen on your trips there, how do you think Europe receives American plays?*

A Europe loves them. Our plays are drawing audiences all over Europe. They are being translated into dozens of languages. The result is a very intense interchange of ideas and dramatic values between the two worlds.

Q *Have you ever given thought to the problem of getting people in from the suburbs to come to the theater?*

A Several years ago the theater tried an experiment by having a 7:00 o'clock theater. Apparently it didn't work out, and we went right back to the old routine. I would like a 7:00 o'clock theater for several nights a week because I have enjoyed going to the London theater at 7:00 or 7:30. I found watching plays in London much more enjoyable because I didn't have to rush through a heavy dinner beforehand. I say this not as a producer but as a member of the public who goes to see other plays.

Q *Then presently your primary way of attracting people is simply to produce a good play written by a good playwright and acted by good actors.*

A That is right.

"Real people are sitting in those seats every time"

Q *What about the irritations involved in getting tickets to good shows?*

A What the public must understand is that there are only a thousand seats for any one performance. Real people are sitting in those seats every time. Before a show opens up we try to get as big an advance sale as we possibly can. This is a part of our security as producers—by sale to theater parties, our own mailing list and advertising sales. If a producer is in the happy position of being sold out for four, five or six months before the play opens, he has a fairly good guarantee that he and the investors will get their money back and be on a profit basis.

Q *Then impulse buying does not fit into theater economics?*

A One cannot order a ticket for the day he wants it. One must think in terms of two months and three months away. The point is that while it is difficult for "A" to get a ticket, "B" might have had his ticket and is sitting in the theater that night. And this is something that I know a good deal of the public does not understand: why it cannot go at the time it wants to go. Our only answer to that is that we have a product to sell and we want to sell it to everybody as fast as we can.

Q *That is to say, the audience has got to realize that the theater is a business and has to be paid for, and that the person who is actually sitting in the theater seat probably thought about the ticket earlier?*

A That is right. That is all it amounts to.

Q *Prices in the theater are really quite high. Now we know that a play isn't quite like a movie, but could you explain to us why the prices are as high as they are?*

A I don't believe the prices are high. Of course, they're higher than they were. However, if one were to examine the increase in the standard of living and in production costs, one would find that the actual rise in theater prices is considerably less than in any other field in our cost of living.

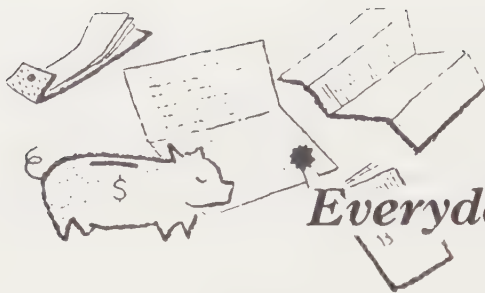
Q *How have your costs changed over the years?*

A In 1940 we were able to produce plays, one-set plays, for about 15,000 dollars. Today the same plays would cost from 85,000 to 100,000 dollars to produce. Musicals were produced for 100,000 dollars. Today they cost 300,000 dollars or more. Our operating expenses have probably gone up 300 per cent in the last 15-odd years. The producers are in a squeeze. This is why I spoke before about needing new theaters.

Q *Are the present theaters fitted for present needs?*

A Our theaters are getting to small for us and the danger is that many of our thousand-seat theaters might have to go. Either that or we shall have to raise prices again, because of the economics of producing. The American theater can go on being a vital art only because it is a profitable business.

Q *Thank you, Mr. Bloomgarden.* ■



Everyday Economics

LAST MONTH, we discussed the tax aspects of selling at a loss to relatives. If, for example, you sell real estate to a relative at a profit, but not for as much as you would have made on the open market, the difference between the sales price and the estimated real value will probably be subject to the gift tax. But, despite the gift tax, you *can* make a saving within the family if you spread the gift among several members. They can then resell on the open market, make their respective gains, and pay their income tax on those gains—but, if they are in a lower tax bracket than you, they will pay a lower tax than you would have had to pay by selling on the open market.

“How often must I tell you. . .



NOT TO put your dirty hands on the wall paper?” How many times a day do you ask them that? Frustrations are fashionable, but a plastic, washable coating would be less

expensive. It is easy to apply. The wallpaper retains its natural coloring and texture. Many brands of the coating are available at paint and wallpaper stores.

Be sure you're ready



WE CANNOT give tips for investing, as we have often been asked to, but here are some suggestions that we think will be of practical use. Before you think of buying stocks and bonds, be sure that you have adequate life insurance coverage and a comfortable reserve of cash savings. Only then can you determine whether you have a sufficient “surplus” for investing. Once you have done this, it is most important for the small, inexperienced investor to find a continuing source of *professional* advice. Many of the large, reputable brokerage houses have departments for the needs of the small investor who wishes to invest in his own name. Those who do not wish to invest in this traditional

way, are subscribing in ever-increasing numbers to mutual investment plans. (In the February, 1957 issue of CHALLENGE, there is a comprehensive description of mutual fund investing.) No matter how much or how little you have to invest, there is a gain to be made through sound investment practice. And the ways to save and to invest your money are myriad and complex. When you are sure you're ready to "go," contact a good broker for his advice. Do not fear that you haven't enough to interest him. The trend today is to service more and more investors from *all* income groups.

It's the humidity?



MANY of us complain about the humidity without understanding its benefits. For, inadequate humidity in the heated room air of homes and offices is responsible for a sizable proportion of all respiratory infections. When the outdoor temperature is 0° to 10° below, however, indoor humidity should be no more than 25 per cent. Above freezing, however, humidity should be between 40 and 60 per cent. Portable humidifiers are relatively inexpensive, and can usually be purchased at local electrical appliance stores. A plus factor: controlled humidity is as good for your oil heating bill as for your

health. Extra saving hint: drain air or water, if present, from steam radiators to allow them to heat up fully.

Know your philately



DOES someone in your family spend "entirely too much money" on his stamp collection? Gone about in a knowledgeable manner, stamp collecting can be a most profitable, long-term investment. Current stamps, held 15 years or more, offer intriguing opportunities for profit, and on many issues, there's a good chance of a 5-10 per cent return—\$342.98 spent between 1930 and 1940 for U. S. commemorative issues is worth \$920 at today's values.

Watch for overexposure



YOUR camera reacts to the cold, too, and if you plan any weekends and vacations in cold climates this year, you'll do well to heed the following advice. Sudden changes in temperature make for condensation on the lens and possible cracking. If moving parts are hard to work, they may be frozen, and to force them would strip the gears. Professional winterizing of a camera costs from \$20-\$50, but it's worth the price and more, if you expect to be using a choice camera in the bitter cold.—D.H.



by David Felix

The St. Lawrence Seaway opens a new route into the heart of the nation

OUR NATION is preparing for happy self-congratulation on the completion of the St. Lawrence Seaway in 1959. The achievement is great, but history may oblige us to celebrate it with a measure of modesty.

The fact is that we approached the imaginative project with an uncharacteristic reluctance. We have usually met the future more than half way, and danger with dry powder and a jeer. Why the Seaway change?

The real hero is Canada. Our northern neighbor had the vision and did most of the work. It is paying most of the costs, and it may see us, so much richer and more capable of exploiting a given economic advantage, deriving an even greater proportional benefit from the Seaway. The Canadians

have been very patient with us.

The St. Lawrence controversy was very bitter. One enemy of the project was accustomed to calling it "that socialistic ditch." The more sanguine, however, would have assumed that the battle was over when the winner was declared, and Congress decided definitely for American participation back in 1954.

But a host of issues remain. The Seaway enemies have re-formed ranks and are now demanding that high tolls be charged. There is justification for having the Seaway pay its way, but there is a real question about the rate and about how much of the costs should be charged off to general economic betterment. High tolls would, of course, reduce Seaway use and win back part of the presumed loss

represented to the Seaway enemies by its mere existence.

The Seaway will give us a 4,300-mile north coast, perhaps our main seacoast in the future. It will serve an American hinterland that comprises almost half of our economy—both farm and industrial. The magnitude of its effect is only dimly perceived today. Consider: nearly half of the industrial products of the most efficient economy in the world will derive benefits in one way or another from the sea route. Raw materials going into them will arrive more cheaply and the products themselves will be transported to their buyers also more cheaply. The farmers will enjoy comparable advantages. The quickening impulse will communicate itself to the whole nation.

The geography of it tells a tale hard to believe. The Seaway "shore" of 4,300 miles compares with the 3,800-mile Pacific Coast, the 11,700-mile Atlantic Coast and a Gulf Coast of 6,400 miles. But the Seaway will tap the richest portion of our national wealth, even more than does the Atlantic shoreline.

Cleveland, Rochester and Buffalo are actually *closer* to the major European ports than are New York City or Philadelphia. Cleveland is 200 miles closer to Liverpool than is Baltimore. The Seaway touches on eight states, two

of them, however—New York and Pennsylvania—also being served by the Atlantic Ocean. A glance at the map is an overwhelming argument for the Seaway—a mere smoothing out of a few rough spots clears out a water route of 2,342 miles from Duluth, Minn., at the western tip of Lake Superior to the Atlantic Ocean.

In the face of this pictorial logic, who opposed it and why? Canada had no opposition of note but her case was simpler; she had only advantage to gain. We have a number of groups and interests who could see short-range losses.

The eastern railroads were opposed because they feared the loss of much freight-handling business. The coal operators and unions fought it because they thought the railroads would then use less coal and because the water-power part of the project could mean less need for coal-fired steam plants in electric power generation. The big port cities, New York, Boston, Philadelphia and Baltimore, did not want to lose business. The utilities fought it because of the public power issue, and Texas feared for its ports and railroads.

But the enemies failed to credit the fact that the increased vigor of the entire American body economic would redound to their advantage. The intensified activity along the Seaway will mean more need for the railroads' services for

products that will not use the Seaway for certain reasons. Of course, no one can guarantee the railroads or anybody else that the new business will make up for all of the loss of the old business. But their situation is not as black as they publicly paint it. They surely showed themselves craven in face of the American dream.

Franklin K. Lane, Woodrow Wilson's Secretary of the Interior, warned that "individuals, corporations and communities may rise to object. . . ." He added: "Such objection would have only the unstable basis of selfishness upon which to rest." Official joint efforts began in the last century with the establishment of the Deep Waterways Commission in 1895. An International Joint Commission after World War I held hearings that fill 60 volumes of testimony. All of our Presidents since Harding favored the Seaway.

Catatonic state

The late President F. D. Roosevelt tried to move matters with a treaty, but the Senate in 1934 gave him a simple and not the two-thirds majority a treaty requires for passage. Other efforts failed and Canada decided to go it alone in 1951. It was this declaration of independence that stirred the United States out of its catatonic state, but it took three years.

An important new argument for

the Seaway was the discovery of a reserve of 400 million tons of iron ore in Southern Labrador. A Great Lakes route made practical by the Seaway would make the ore competitive with Mesabi ore—and ready to take over as the American Mesabi fields play out.

How much money and work are involved in the Seaway? Cost estimates are rather vague because people differ on just what the Seaway implies and because more work will be required than present plans indicate. Unforeseen defects will require more expenditures; success itself will mean that a good thing will cry out for betterment so that it can pour out even more advantages. One estimate has the cost at 1.5 billion dollars, with Canada paying more than two-thirds.

This includes an electric power development generating 2.2 million horsepower at the International Rapids section, where New York State faces Ontario across the St. Lawrence River. Its annual 12 billion kilowatt hours will be divided equally between the United States and Canada.

The power situation illustrates an interesting case of how neatly selfish interests draw the line between me and thee. New York State is developing too slowly in relation to its potential because of the insufficiency of cheap electric power. Yet New York City

doggedly fought the Seaway and all—power plants, particularly—that it implied.

Actually, a dwarf Seaway exists today. Its success suggests how well the giant will do. The International Rapids section is bypassed by 14-foot canals, which permit ships of 1,800 tons to reach the Great Lakes. Uneconomically small and slow, these freighters, built for the special situation, are making big profits on the Seaway-to-Europe run.

Work to be done

The important work remaining to be done involves dredging a 27-foot channel along 114 miles of the rapids to replace the shallow canals. The 27-foot depth is the present Seaway standard. It will take ocean-going freighters of 10,000-ton size. This compares with the 37 feet of Philadelphia and 45 feet of the port of New York City. The present St. Lawrence objective is modest but the dredging can go on and on.

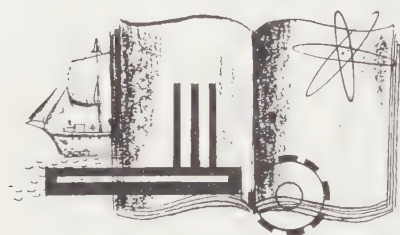
Other work has required dredging channels down to 27 feet between all the links in the Great Lakes chain. The total lift up the various locks will be 580 feet from the surface of the lower St. Lawrence to Lakes Michigan and Huron and 600 feet to Lake Superior.

Disadvantages cannot be gainsaid. Ice will block the Seaway for

at least four months. This will distress some shippers to the point that they will not bother transferring cargoes from one to another of the transportation systems. Some cargoes like ore can be stockpiled but machines are too fragile. But the lower water shipping costs will find all the transportation takers the Seaway can hold. The biggest freighters will not be able to use the Seaway, but most will; and, as indicated above, the dredging can go on and down.

It is estimated that the Seaway will take a maximum of 50 million tons annually at the 27-foot depth. Even if the United States should take the lion's share and ship three-quarters of that, it will still not get as much—for the while, at least—as the project people seemed to promise. Our three major ports together are shipping cargo at an annual rate of 200 million tons. If this is an indication that the Seaway will have no revolutionary effect, it also shows that it cannot hurt the big ports as much as has been feared.

The question of a shipping quota could lead to conflict with Canada, who may have different views on what makes a fair division. Meanwhile the Americans concerned with the Seaway are girding for a conflict on the size of the Seaway tolls. But nobody can argue the Seaway out of existence now. ■



The Permanent Frontier: No. 2

Colonial origins: predominantly
English ways are adapted
to American means

ENGLAND'S explorers and cavalier pirates could not have asked for a bolder or more enthusiastic patroness than the young Elizabeth who became queen in 1558. But the real beginnings of English colonization belong to her successor, James I, who, on April 20, 1606, chartered the London Company. Eight months later, its members waved Godspeed to 144 men bound for Jamestown, Virginia, which was to become the first permanent English settlement in North America.

Until then, the most outstanding colonies in the New World had been New Spain and New France. Sir Walter Raleigh's settlement on Roanoke Island had profited history and England with nought but a tantalizing mystery. Sir Humphrey Gilbert was bankrupted by colonizing attempts in Newfoundland. But while the Spanish gleaned the mineral wealth of Mexico and Peru—and while the French in Canada, and throughout

the Ohio and Mississippi River valleys, optimistically built up a rich fur trade—England had time to observe the differences in their colonizing efforts.

The frontiers in each of the colonies reveal those differences. The wealthy and powerful land-lords of New Spain pushed the frontier farther and farther away from the original settlements as they searched for minerals, tilling land and grazing lands for the cattle herds that supported the great haciendas. New France was itself a frontier, settled in the main by missionaries, explorers, trappers and factors, and composed of small, rather insignificant settlements, scattered trading posts and forts. In the English colonies, individualism was more strongly developed. Here, the frontier was primarily agricultural. It was settled, in the beginning, by the yeoman who had completed his indentured servitude and moved westward along the mountain

passes and the river valleys to clear and work his own tract of land.

Differences between the English colonies and those of Spain and France were as much a matter of colonial policy as natural environment. By and large, Spanish and French colonial policy tended to be autocratic and overprotective. It discouraged private enterprise and individual initiative, and it retained many of the social distinctives of the old country. The poorer colonist was often little better off than a serf. The social and economic structure of the two colonies was generally characterized by class exclusiveness. Feudal territorial grants were the most common form of property ownership. Unlike the English colonies, the Spanish and French proprietors rarely adopted a policy of "cheap" or free land for the common man to call his own. Similarly, all enterprise in the Dutch and the Swedish colonies was monopolized by private trading companies. There was thus little incentive for the individual to emigrate.

Small populations eventually permitted the defeat of the Dutch colony at the hands of the English. The sparseness of French settlement also contributed to the

This is the second article of a series in CHALLENGE which deals with the history and development of the United States economy.

declining role of the French in the Western Hemisphere. The rigid Spanish commercial monopoly in the Caribbean, by inviting English and Dutch piracy and smuggling, proved ineffectual in the long run.

Of course, most of these weaknesses also plagued the English colonies, but England had no choice but to temper her selfish motives with an equally selfish but generous regard for private initiative. For, unlike the French and Spanish, English colonization in America relied entirely on *private* capital obtained through sale of stock. The English crown had never been affluent. It founded no colonies, nor did it contribute towards the founding of any. Instead, it granted charters to those men who were willing to risk their own fortunes in the attempt.

Luckily, conditions in 17th-century England were just ripe for empire-building. The seizure of church property by the Tudors had placed unaccustomed wealth in the hands of the nobility. City merchants and bankers were amassing capital from booming commerce and industry. They sought new markets and raw materials for England's workshops.

The growth of woolen mills, the enclosure of farm land for sheep herding and the dissolution of the monasteries had put thousands at a loss for a livelihood. The colo-

nies were regarded as a desirable outlet for the delinquent and the unemployed. Whether he indentured himself for passage or paid out his last farthing to go as a freeman, the English colonist saw an opportunity to start his life anew, and, perhaps, to gain a higher station in life.

Above all, however, it was the investors who made colonization possible. The failure of Gilbert, Raleigh and others had proved to the practical investor that no one man could command fortune enough for the enterprise. Thus, joint-stock companies were organized and they received crown charters to establish colonies—"plantations"—for a profit. These charters consisted of grants of territory and sovereign authority over future settlers within that territory. With a few exceptions, notably New Plymouth, all of the English colonies were at first proprietary. Whether as an *individual*—such as Lord Baltimore, William Penn, John Carteret, the Duke of York (later James II)—or as a *corporation*, the proprietor owned the land and ruled the settlers.

"Epoch in colonization"

At the outset, settlers' rights did not include the right to vote or to hold office, for not all Englishmen had such privileges at home. But as the rights of Englishmen broadened, so did the rights of the

English colonists. As historian Edward Channing has remarked, "It was the fate of settlers of other nations to be looked upon as beings outside the laws and privileges of the dwellers in the homeland. English colonists, on the other hand, were to enjoy the protection of the Common Law (jury trial, habeas corpus privileges and free speech, as those rights were then understood) equally with the inhabitants of England. This enunciation marked an epoch in colonization." It also, unwittingly, paved the way for eventual independence from the mother country.

Mercantilist theory

In light of 17th- and 18th-century thought, colonial claims to equal rights with the mother country were not only intolerable—they were illegitimate. England's motive for colonization was based on a politico-economic theory known as mercantilism. This theory and its policies aimed at building strong and wealthy national states at home by promoting economic independence and by establishing a favorable balance of trade, that is, a surplus of exports over imports. "Favorable," however, had an entirely limited and selfish connotation in this context, for it assumed that one nation's gain must surely be another's loss. By protecting and aiding domestic agriculture and industry;

by exporting more goods than were imported; and, by amassing and *keeping* in the home country as large a quantity of specie as possible, mercantilists hoped to encourage strong and flourishing national economies.

For the mercantilist, the colonies existed for the advancement of the home economy. The colonies existed as a source of raw materials and as a market for finished goods. Colonial legislation was framed accordingly.

Pivotal character

The merchant was the pivotal character in this drama, for it was his role to put mercantile policy into practice. But even *his* interests were secondary, except insofar as they promoted the interests of the Crown, which now sought increasingly to coordinate its political power and to regulate the flow of specie to its treasury.

Though selfish, these policies were by no means disastrous to the development of the colonial economies. Indeed, the interests of the colonies often ran parallel with those of England, and in many cases, English bounties actually promoted local economic development. Besides, when the English market was closed to colonial goods, a market was usually found elsewhere, particularly in the West Indies and southern Europe.

The founding of the 13 original

colonies took 125 years, from the settling of Jamestown in 1607 to 1732 when Georgia was settled as a barrier to Spanish Florida and as a refuge for English felons and debtors. In all of the colonies, once the first discouragements were overcome, economic and political life advanced rapidly. While the colonists were encumbered as often by intolerance and tyranny, cowardice and laziness as by natural hardship, rebellion against hardship, a stern and demanding faith and an unbending determination made for success.

By 1612, the Jamestown colony was assured of a prosperous economy based on Negro slave labor and the cultivation of tobacco. All of the Southern Colonies were noted for a plantation-type economy. Cheap land and easy land laws, concentration on one major crop (notably tobacco, rice, indigo)—these factors made for prosperity. On the other hand, the one-crop plantation-type economy discouraged the development of manufacturing. The population was spread widely over the region. Small, subsistence farmers predominated in numbers, but the plantation owners controlled the labor of thousands of indentured servants and slaves. The economy of the Southern Colonies could never be self-sufficient, but it was most profitable.

Expansion in the New England

colonies was by townships rather than by individual grants. This system, together with the rigorous climate, poor soil and land laws that permitted the division of land among several heirs, discouraged the development of large estates. New England became a community of small, self-sufficient farms and compact settlements. Though the economy was predominantly agricultural, a relatively larger portion of the population gained a living from commerce and industry than elsewhere in the colonies. High tariffs prevented the export of foodstuffs to England, but a market was found in the West Indies for surplus agricultural products such as fish and lumber, in exchange for sugar, molasses and currency. The sugar and molasses were distilled and made into rum which was a useful commodity in the slave trade.

Basis for sectionalism

In the Middle Colonies, there were larger numbers of non-English peoples than in other sections. The Dutch in New York, the Swedes in Delaware, the Germans, the Irish and Scotch-Irish gave

the civilization of these colonies a more varied aspect. Instead of granting land by townships, the proprietors sold or donated their land to the settlers, though they reserved for themselves a small quitrent, which was unpopular and often difficult to collect. The soil was richer than in New England, and it made for a more varied agricultural economy than the soil and climate to the south permitted. The chief product was wheat, which, together with cattle, was exchanged in the West Indies for brandy, syrup, sugar and salt. As in all the colonies, furs were a very important export item.

The differences apparent among the three colonial regions at this time laid the basis for a later division of interests known as "sectionalism." For a long time, these differences, and the struggle in each region to gain economic supremacy over the others, overshadowed any sense of collective identity. Many colonists, indeed, felt closer to the "mother country" across the ocean than to their next-door colonial neighbors. A sense of nationhood and common destiny was still a long time away. ■

NEXT MONTH: diversity and unity in colonial life

Industry Trains Its Own

Company training programs
boom throughout the nation

by Spencer Hayden

ROGER M. BLOUGH, board chairman of United States Steel Corp., must have felt like Hamlet after a visit this year to General Electric Co. To set up a training center, or not to set up a training center; that is still the question for U. S. Steel.

Blough visited several companies maintaining schools for their executives. He wanted to determine whether U. S. Steel should move its massive bulk in the direction of such in-company training or not. The effort at decision was brought to its most excruciating point at GE because its company academy at Crotonville, N. Y., is regarded as a model of its kind.

The Advanced Management Course takes place in a specially constructed three-million dollar

educational plant that costs half that sum annually in maintenance, personnel costs and consumed executive time. About 50 top executives at a time spend 13 weeks in a study program so absorbing that they are not permitted once to return to their departments. Indeed, this absence is itself a significant negative element of the training. The principle is that the executives should have already learned to delegate authority so effectively that their departments can get along without them.

The creator of the academy is Harold F. Smiddy, a management consultant who became a GE executive, and he is staunchly supported by its president, Ralph J. Cordiner. But there are mutterings down the GE line.

Smiddy operates on the principle that executives should not, as they have been doing, think of themselves primarily as accountants, engineers, salesmen and other specialists. He insists that they are all professional managers, and they should orient their business leadership that way. The study program tries to build out of the necessary details of planning, organizing, interpreting data and measuring an executive approach in terms of 10-year planning.

It was inevitable that many line executives would react with

less than enthusiasm to the rigors of such a course and the philosophy behind it. In the decentralized GE organization, many of the so-called department heads are really the presidents of virtually independent firms. In any case it was inevitable that a certain staff-versus-line difference of viewpoint should take place. Highly independent department heads with many years of line responsibility behind them, have a tendency to resist the strictures of the young PhD. instructors.

Bafflement intensified

The Crotonville school is enough of an experiment yet to be staffed with full-time psychologists who do nothing but try to evaluate its effectiveness. GE does not know what it has and does not know if it likes it.

Blough's reaction of bafflement was intensified, if anything, by the opinions of another industrial giant, which has no school of its own and does not want one. This firm volunteered the advice to U. S. Steel that industrial cerebration did not need formal training centers of the GE type. Specialized training could be provided by study courses at universities. More than that was folderol, it insisted.

GE academicians retorted that the firm in question has no great need for superior leadership. "For them it's just a matter of bulling

ahead in production and sales," a GE man said.

The Blough decision has thus not been made. The question—of whether the U. S. Steel school is to be—remains in a thick executive file. Some optimists expect a favorable decision before long, but that company's academic expectations seem greater among the staff, and not among the line, executives.

Proliferating and expanding

The pros and cons have not canceled each other out elsewhere in the United States. In-company schools are proliferating and expanding. All business accepts the principle that its increasing responsibilities require more and more executive training. But where should the executives get the training?

Universities are already established and experienced in teaching. This simple-minded assertion is enough to convince many people that firms should leave education to the educators. On the other hand, the late Edward R. Stettinius, before he became Secretary of State, expressed alarm over "the failure of American business management generally to introduce an orderly and methodical system for the discovery, development and assignment of

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executive personnel." There were universities at that time, too.

The examination of business by business is a healthy sign. It argues well that our top executives are taking the time from line operations to indulge in staff thinking. They are finding out interesting things.

"Our company is different," one highly respected executive told me recently. "There is not much point in our people visiting a university where they have to learn generalities. We know what we want, and we found that we had to build a school from the ground up to get it."

Perhaps this executive's company is not as different as he thinks, but it does have problems peculiar to it. The executive thinks the problems are sufficiently unique to justify the trouble and expense of setting up a school.

Financing a program

According to Professor John W. Riegel of the University of Michigan, any company can finance an executive training program for one or two per cent of the total salary paid its executives. It must be big enough to have a sufficient quantity of executives, of course. Let us take a company with an employee force of 4,000, of which 200 are executives. These executives would have an average salary of 7,500 dollars making a

total payroll for them of 1.5 million dollars. This means, according to Professor Riegel, that the company could afford between 15,000 to 30,000 dollars annually for an executive training program. The investment in human resources is small, but a critic would immediately respond that a university might give a better return for the money.

The alternatives of in-company school or university are by no means mutually exclusive. Thus the International Harvester Co. set up an ambitious business school type of educational plant with the help of the University of Chicago in a relationship regularized by a five-year contract. Instructors were provided by the university, which designed the curriculum in consultation with Harvester executives. More than 14,000 executives and supervisors—the school also covers the sub-executive level— took short intensive courses in the first five years.

The International Telephone & Telegraph Co. worked out an agreeable compromise in another way. It has set up its own school in Asbury Park, N. J., and furthermore, sends men back to college. Since the Bell school began, more than 950 students have matriculated, most for a four-week course and some for courses extending to 13 weeks. Subjects include phases of human relations,

economics, labor policy and advanced management training. There are five levels, ranging from foremen to general managers.

The university plan is more modest in size and more daring in philosophy. About a score of men annually leave their offices behind to spend a whole year at the University of Pennsylvania in non-technical courses that extend from economics to art. The principle is to strengthen a certain non-conformist element in the Bell System. The firm also sends executive-students to other universities for briefer courses.

How widely spread is company education? A recent survey of 100 major corporations showed that more than 70 per cent had formal training courses for management personnel; one out of five had standardized these courses into what might be called a school. The invasion of the university function is thus a major operation.

Nonsense creeps in

Company training has climbed from the lower echelons; it used to be practiced upon the hourly wage earner. During World War II, supervisory training was found necessary to guide the hundreds of thousands of new foremen. Postwar conditions emphasized that executives needed more training, too.

It is true that some nonsense

creeps in. One firm used its worst foremen as instructors because the teaching experience improved their plant performance. It did not pause to consider what effect articulated incompetence had on the students. One critic has warned against turning such concepts as human relations into slick formulas. It is easily possible for the misfit, he warned, to rack up his credits in human relations and return to his plant to wreak more havoc.

"There's bound to be water in this system," one thoroughgoing skeptic said. "You get a more than 50 per cent tax write-off. A lot of sins have been committed in the name of cut-rate experimentation, and one of the worst is letting so-called experts loose in these schools. They tell you 'How to Think Logically' and 'How to Delegate Work and Get Things Done Through Others.' Where did they learn all these things when we were sweating out production schedules?"

But unlike GE, most of the companies who have set up schools are content with the principle, if not with all the details. Other such major firms are Johnson & Johnson, Armco Steel, Armstrong Cork, American Airlines, Standard Oil (New Jersey), Sears Roebuck & Co. and McCormick & Co. Blough has yet to indicate how he will resolve his dilemma. ■

COMPETING THROUGH *Taxes*

by Earl J. Weinreb

Competition among states for new industries takes many forms,
and tax inducements are not always the most important

STATE GOVERNMENTS have been vying for commercial and economic supremacy ever since the republic came into being.

Has this competition resulted in the desired benefits to the individual states? No categorical answer is possible. Harmful side effects produced by an overenthusiastic thirst for new industry must often be balanced against the commercial benefits.

Preferential tax treatment is, perhaps, one of the more dramatic areas in which states compete. Most states furnish tax incentives to the corporation rather than the individual, since individuals do not generally decide where to live by comparing state tax laws. Very few states have lowered personal taxes in recent years.

Of course, the individual is often affected indirectly by tax concessions to corporations. The emigration of an important industry may leave in its wake an army of un-

employed, while the arrival of new industry generally means more jobs and bigger payrolls for the community. How state officials utilize tax incentives has a very real bearing on the welfare of entire communities.

The most common form of tax inducement used by the states is to exempt new industry from property taxes for a specified period of time. Several states permit their localities to offer new industry exemption from taxes on tools, machinery, invested capital, manufacturer's inventory or from state property taxes for periods of up to 10 years.

Many states will also provide new industry with lower rate schedules. Louisiana, for example, has furnished extensive industrial property tax immunities. Alabama, Mississippi, Oklahoma, South Carolina, Vermont and Rhode Island have also enacted special programs liberalizing tax exemptions.

The localities also furnish many forms of tax preference, especially in the setting of assessments. Although statutes in 42 states require full value of property as the standard of taxation, assessed values of real property in these states are, in fact, just a fraction of their full value in the vast majority of instances. The extent of cut-rate assessments is a highly significant tax inducement.

Industry's response

How has industry responded to these tax incentives? There are many doubts over the effectiveness of these inducements by themselves, for taxes are just one of the many factors involved in the choice of a plant location.

Indeed, the nontax aspects of state commercial competition are commanding an increasing attention among corporate officialdom. Several states have passed enabling legislation permitting local governments to issue bonds for the financing of industrial plants.

Such bond issues are subject to some serious criticism. Sometimes revenue bonds are issued, secured only by the income to be derived from a specific enterprise. On the other hand, many of the bonds issued are *general* obligations of the municipalities. In that case, if the programs do not pan out as expected, or if the businesses fail

to prosper, local finances could conceivably become a hopeless mess.

Sensing the harmful effects of using public funds to promote private industry, six New England states (and a few others elsewhere) have fostered *privately owned* development corporations whose purpose is to retain established industries as well as to lure business firms from other areas. The development corporations purchase and lease real estate or equipment, facilitate corporate financing with their own funds (sometimes by purchasing stock) and, in times like the present, seek to minimize the "tight money" situation.

Effect of right-to-work laws

There are other ways in which states can compete for new industry without going into debt. Industry is constantly in search of an ample, dependable labor force at the lowest possible hourly or unit cost. Everything else being equal, the 18 states with right-to-work laws have a decided advantage over those who do not. Specific state labor regulations with respect to picketing, collective bargaining, strikes and boycotts are often an important factor in luring new industry. The cost of

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workmen's compensation which varies greatly in the various state laws also enters into the calculations of business looking for a new home.

Curiously enough, industry, for the most part, has not taken the bait proffered by the states as readily as might be expected. Businessmen are much more concerned with federal taxes than with the substantially lower rates imposed by the states and municipalities. Short-term loans are often not particularly appealing when set against the long-run market potential of the community. In spite of cheaper taxes or easy financing, companies will have to move if their sources of supply or their markets shift. Adequate transportation and distribution facilities are imperative. Temperature and climate conditions, availability of fuel and utilities, and even personal prejudices may enter into executive decisions to relocate.

Even so, state policies, (especially tax policies) do exert a notable influence when new industrial homes are contemplated. State public officials are generally aware of this fact, although there are some who fail to understand the scope of the silent battle for commercial supremacy in their midst. While taxes may not be the most important factor in corporate migration, there is a definite threshold of tolerance beyond

which a tax burden will no longer be endured.

For example, Louisiana is ordinarily inclined to be a very lenient tax state. Yet, Freeport Sulphur doggedly fought a proposed increase, from \$1.03 to three dollars per ton, in the levy on sulphur extracted within the state. Another proposal to raise the gathering tax on natural gas was equally opposed by industry. Fortunately for the affected companies, both proposals were turned down by the Louisiana Legislature.

Exorbitant impositions

Michigan, considered by many to be a high tax state, has also received its share of vociferous clamoring for lower taxes. Harlow Curtice, president of General Motors, recently disclosed state taxes had forced his company to locate new plants elsewhere. There has been talk of a new Chrysler tank contract going to a Delaware rather than to a Michigan plant. Other firms have also been voicing their distress over what they deem exorbitant impositions.

Admittedly, most of the complaints are for public consumption only. Nevertheless, the threshold of tax tolerance must be respected by the wide-awake public servant. There should be a genuine attempt at reasonable and equitable tax treatment of industrial concerns.

On the other hand, bending over

backwards to appease industry with ultra-liberal, and perhaps unnecessary tax inducements, should also be avoided. Irresponsible tax concessions are a sure way of aggravating the deficits which plague most state budgets these days. During fiscal 1956, state governments resorted to total deficit financing of about 468 million dollars, notwithstanding record tax receipts of 14.4 billions. Indiscriminate tax concessions are not going to improve this situation.

Finding the middle ground

Clearly, some middle ground between the extremes of too little and too much corporate taxation must be found. Fortunately, forthright attempts at a solution of this dilemma have been made in several states.

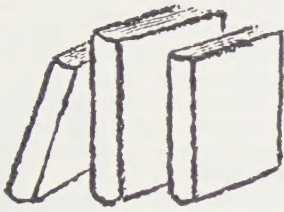
For example, a commission appointed by the New Jersey Legislature has urged the levy of a sales tax to replace personal property taxes, a uniform assessment on real property and various other tax concessions. A nonpartisan citizens committee in Minnesota has called for the complete revision of that state's tax structure. Proposals include reductions in personal property and other taxes so as to aid agriculture and business.

Other progressive states, hoping to attract newcomers and so

broaden the tax base, have found that in a good many instances collections can be increased, without resorting to further taxation, by merely exercising more efficient collection systems. Sometimes inconsistent tax policy—a source of annoyance to industry—can be remedied with the proper revision of state and local tax spheres.

There is one other important point. As states become more industrialized, there is a natural tendency for their taxes to grow higher, in keeping with increased local government services. A "tax advantage," after all, is a relative thing. Alert businessmen know that the level of taxation should be tied, to a great extent, to what the taxpayer receives for his tax dollar. High taxes may be worth the money, if they result in better fire and police protection, better schools and better communities. Industry can draw many benefits from good local government.

Responsible public officials are beginning to understand that the state's best interests lie along that middle ground. Liberal tax policies may attract industry, although not to the degree many would hope for. Liberal tax policies may also leave the states in a morass of debt. In the final analysis, commercial supremacy will be achieved by those states which have the most to offer. ■



READING REPORT



Factory and Manager in the USSR. Joseph S. Berliner. 386 pp. Cambridge, Mass.: Harvard University Press. \$7.50.

• This study is based on interviews with 41 Soviet refugee managers and bureaucrats taken more than 15 years ago. Later research adds more recent interpretations but fails to move the book's center of gravity from the past. The book contains interesting source material, including illustrations of the use of influence and fixing to get around bureaucratic rigidities. Berliner hints at the power of the managers when he reports how they keep Communist party officials in their place: the party secretary who attacks a manager finds that his sources of information are cut off and that he cannot operate effectively without them. The duel between the party ideocrats and the managerial technocrats remains an important element of the Soviet scene.

* * *

Parkinson's Law. C. Northcote Parkinson. 113 pp. Boston, Mass.: Houghton Mifflin Company. \$3.00.

• Parkinson's "law," while well known to serious students of bureaucracy (meaning bureaucrats), is generally ignored by legislators and the tax-paying public. These latter innocently believe that the amount of work done by a govern-

ment agency can be increased by adding to its work force. They do not grasp the basic assumption of Parkinson's "law"—that work expands so as to fill the time available for its completion. "Thus, an elderly lady can spend the entire day in dispatching a post card to her niece." Similarly, an office worker can be very busy doing things there would have been no need to do if he had never been hired in the first place. These and other paradoxes of bureaucratic behavior are discussed in this witty and altogether admirable book.

* * *

Albert Gallatin, Jeffersonian Financier and Diplomat. Raymond Walters, Jr. 461 pp., with notes and bibliography. New York: The Macmillan Company. \$7.00.

• Budd Schulberg has had one of his characters remark that self-made men are more often than not either "bores or heels." Albert Gallatin was neither bore nor heel nor self-made man. He was a gentleman, born into a family of cultured Swiss. But he came to this country when he was hardly more than a boy, with a great deal more wit and optimism than money, and barely more than a bookish knowledge of English. When he died at the age of 88 in 1849, he had become moderately wealthy. More than this, as a political and fi-

nancial oracle, as a Congressman and later as Secretary of the Treasury, he was instrumental in shaping the policy of his time and much that would follow. Mr. Walters has written an excellent biography which can be enjoyed even by those who do not know too much of our financial history during these formative years.

* * *

Persuasion for Profit. Nicholas Samstag. 208 pp. Norman, Okla.: Oklahoma University Press. \$3.75.

•Samstag instructs ably in the art of promotion but he leaves the reader with the queasy feeling that it should be prohibited. He is so promotion-conscious that he spatters his book with publicity puffs for his organization and colleagues. His trade talk—and jargon—is useful for the beginner and the sociologist; they can learn much about the techniques of successful sells. But one of the basic premises of the book is that people rarely make choices for logical reasons. He fails to prove his point, for people do persist in allocating their choices so that they pick food over folderol. Perhaps Samstag's area of operations is much narrower than he realizes.

* * *

Freedom, Virtue and the First Amendment. Walter Berns. 264 pp. Baton Rouge, La.: Louisiana State University Press. \$4.00.

•A salutary warning about the tendency of the Supreme Court to base judgments on sociological considerations is entangled in a skein of arguments that defies the weaving. The author argues that the Court should use a "purer" justice than a so-called social justice as the touchstone of its decisions. He also emphasizes virtue in the sense of sheer decency

and responsibility as a necessary element in state policy. Berns sees the enemy in the liberal and his advocacy of what the author thinks is too much freedom. But Berns is unable to define exactly what he means by justice and thus leaves the Supreme Court in a darkness of negative pessimism.

* * *

The Response To Industrialism, 1885-1914. Samuel P. Hays, 211 pp. The University of Chicago Press. \$3.50.

•This is a history of American industrialism and its influence on our society. Unfortunately, it takes the reader only as far as 1914. But apart from this, it is simply not a book for those who are truly interested in the subject. Although thorough, it is an unambitious survey of unevaluated facts.

* * *

The Economic Consequences of Automation. Paul Einzig. 255 pp. with bibliography. New York: W. W. Norton & Company, Inc. \$3.95.

•". . . realization of the dangers of automation should not induce us to reject automation, but should spur us to a supreme effort to reduce those dangers to a minimum." Dr. Einzig examines the experience with automation to date as well as the advantages and disadvantages that one beholds in its probable future effects on society. The book is a comprehensive review, and interpretation, of *all* the economic factors. His main concern is with the inflationary impact of automation. His prescription for counter inflation is weakened by his evident fear that it will not be heeded. But, as a summary analysis of "the economic consequences of automation," the book is good, indeed. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 46.

- | | |
|---|--|
| <p>(1) The St. Lawrence Seaway will not have a revolutionary effect on the U. S. economy.
True ☐ False ☐</p> <p>(2) Housing conditions today are worse even than during the war and postwar shortages.
True ☐ False ☐</p> <p>(3) Consumer price of natural gas is commensurate with high production costs.
True ☐ False ☐</p> <p>(4) In-company executive training is becoming a substitute for graduate school work.
True ☐ False ☐</p> <p>(5) Today's speculator is a master of sound investment, and difficult to distinguish from the conservative investor.
True ☐ False ☐</p> <p>(6) The U. S. has the institutional framework conducive to foreign banking.
True ☐ False ☐</p> | <p>(7) The Russian-Chinese alliance presents economic advantages to both countries.
True ☐ False ☐</p> <p>(8) Standards of living can best be measured by economic values.
True ☐ False ☐</p> <p>(9) Socialist parties in Europe must continue to concentrate on domestic economic issues.
True ☐ False ☐</p> <p>(10) Tax advantages to attract industry can be disastrous to state budgets.
True ☐ False ☐</p> <p>(11) The English crown gave no funds toward the first colonization in North America.
True ☐ False ☐</p> <p>(12) Milovan Djilas believes firmly that Western capitalism will eventually defeat Eastern communism.
True ☐ False ☐</p> |
|---|--|

DEPT. of MOUSE TRAPS BETTER

And They're Getting Better All The Time: A non-irritating, non-occlusive, antibiotic spray bandage in a push-button aerosol container has been developed for burns, minor cuts, abrasions, lacerations. . . "Off-the-shoulder" dresses are no longer a closet problem with a new type of clothes hanger designed for V-necks, square necks, scoop necks and all types of shoulder straps.

* * *

Winter Wonderland For Cars: A heated steering wheel for driving cars and tractors in cold weather; the unit is attached to the wheel rim. . . A spray-on, wipe-off, anti-fog fluid that keeps glass and plastic surfaces clear for long periods. . . A heater that operates all night to pre-heat the engine inexpensively from 115-volt current. . . And for all seasons, a brake fluid indicator for the dashboard with automatic warning signal; installed in the place of the master cylinder cap, it fits all vehicles equipped with hydraulic brakes.

* * *

Fancy Free: For a child's treat on the Thanksgiving table, a decorated gingerbread house, easily baked with a 4-piece cake mold. . . A re-usable aluminum handle to facilitate pouring from awkward, ½-gallon milk cartons. . . An automatic, clean-working cherry pitter. . . A 6-sided pie pan for generous, evenly sliced portions.

* * *

Solutions And Timesavers: A completely safe solution that removes photo developer stains in minutes. . . A calking gun, with pistol grip and

trigger, that eliminates dripping and splattering. . . A solution that frees any mechanical part "frozen" by rust, scale, corrosion or paint and carbon residue. . . A cement-base paint that prevents water seepage in cellars, silos, elevator pits—but permits moisture and vapor to escape. . . A pliable aluminum for repair work; it can be molded, drilled, filed, chiseled—and sanded to a high gloss. . . A window-cleaning cloth that prevents streaking from dust, dirt and rain; eliminates soap and water.

* * *

Children's Corner: A circular, portable ice rink (16½ or 20 ft. diameter) of weatherproof steel with plastic liner. . . A shower curtain with reproductions of old playbills.

* * *

And, From The World of Industry: An 8-lb. washing machine that fits in kitchen sink or tub; water agitates by sound waves. . . A wireless thermostat signal-receiver that controls heat in a room. . . Metal window attachments designed to eliminate sash cords and weights; they permit removal of entire window for washing. . . A miniature charcoal stove designed to be placed on any surface. . . An inexpensive, 10-watt self-powered portable public address system with transistorized amplifier, 8-in. loudspeaker batteries, and press-to-talk mikes. . . A 6½-lb., 10-key adding machine that multiplies or adds up to 9 columns.

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Write to CHALLENGE magazine for additional information. ■